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CARIBBEAN BASIN INITIATIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

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ON

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CARIBBEAN BASIN INITIATIVE

FRIDAY, FEBRUARY 9, 1990

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senator Chafee.

[The press release announcing the hearing follows:]

[Press Release No. H-5, Jan. 26, 1990]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD HEARING ON CBI

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Friday the Subcommittee on International Trade will hold a hearing on proposals to amend the Caribbean Basin Initiative legislation.

The hearing is scheduled for *Friday, February 9, 1990 at 10 a.m.* in room SD-215 of the Dirksen Senate Office Building.

Senator Baucus said, "The Finance Committee made a commitment in the budget reconciliation conference last year to take up the Caribbean Basin legislation early this session. This hearing will allow the Committee to explore the important issues raised by this legislation."

In order to promote economic stability and development in the Caribbean Basin, existing law provides duty-free access, with exceptions, for most U.S. imports from Caribbean beneficiary countries. This duty-free treatment terminates by law in 1995.

The proposals for legislation on CBI in the 101st Congress focus, among other things, on making the program permanent and eliminating the exceptions to duty-free treatment.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. This meeting will come to order.

In August of 1983 the Caribbean Basin Economic Recovery Act (CBERA) was enacted into law. The CBERA was the legislative vehicle to launch the Caribbean Basin Initiative, better known as CBI. CBI is a unique program. Essentially, CBI is a one-way free-trade area. The United States has granted the nations of the Caribbean basin duty-free access to the U.S. market for most products until 1995.

It is remarkable that Congress could almost unanimously pass CBI legislation. In most instances, my colleagues and I would insist on specific and substantial trade concessions from other countries in return for guaranteed access to the U.S. market.

I venture to guess that Ambassador Hills would scarcely dare to come before the Finance Committee supporting such legislation if it involved any nations except those of the Caribbean.

Why was Congress willing, even eager, to support CBI? The short answer is that Congress appreciates the special relationship that it has with the nations of the Caribbean. It understands the deep political, economic and social ties that bind the United States to the nations of the Caribbean. The Congress appreciates the considerable national interest that the United States has in the economic health and stability of the Caribbean region. The Congress also knows that strong economies in the Caribbean mean strong export markets for U.S. goods.

In fact, in 1988 the United States actually ran a $1.4 billion trade surplus with the nations of the Caribbean. With all this in mind, it is not surprising that many in Congress, including Senator Graham and Congressman Gibbons, are anxious to extend and expand CBI.

Many of us in Congress see great merit in many of their suggestions. Making duty-free status for Caribbean nations permanent would encourage businesses to locate in the region and improve the prospects for sustained economic growth there. There are also certain additional products that could be included in the CBI and certain technical changes in the program that are long overdue.

With that said, supporters of an expanded package of CBI benefits widely known as CBI II should keep in mind that members of this committee have diverse concerns and interests. The Senators of this committee have close ties with the nations of the Caribbean, but they have even closer ties with their own constituents.

Though they are interested in encouraging economic growth and malaise in Antigua, they are even more interested in encouraging economic growth in States like Texas and Montana. If we are forced to choose between our constituents and CBI, we will, of course, choose our constituents.

In my view, the House generally did a good job of shaping an acceptable package that extends benefits to the Caribbean nations without undermining the economic interests of our own country. Some changes may be required in the House bill, but it is certainly legislation we can work with and move quickly.

Those who would seek to greatly expand the benefits granted to the Caribbean nations should keep in mind that a controversial piece of legislation would not pass the Senate quickly, if passed at all. The nations of the Caribbean are likely better served by a package of benefits that passes Congress quickly than by a much more ambitious package that does not pass the Congress.

With that in mind, I look forward to working with the administration and other members of the committee, and certainly with Senator Graham and other Senators very interested in this package, as we shape CBI II.

Our first witness is Hon. Senator Bob Graham, the State of Florida, a very active member of the Senate. Welcome to the committee, Senator Graham.

STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Thank you very much, Mr. Chairman. Mr. Chairman, I have a full statement which in the interest of time would ask be submitted for the record and I would like to make a few summary statements.

[The prepared statement of Senator Graham appears in the appendix.]

Senator GRAHAM. First, Mr. Chairman, I appreciate your holding this hearing this morning and your comments as to the sense of urgency and expedition in dealing with this issue are very much appreciated. And I look forward, as do others who are concerned about this issue, to working closely with you and other members of the committee to see that that is accomplished.

I would like at this time, Mr. Chairman, with your permission, to introduce Ambassador Edward A. Laing of Belize. Ambassador Laing is here today representing the nations of the Region. The Ambassador has indicated that he would welcome the opportunity to answer any questions of the committee. He has also submitted testimony for the record, which I would highly recommend to the members and their staffs. His written comments address very directly why this legislation is in the interest of both the United States and our friends in the Caribbean basin. Ambassador Laing.

Mr. Chairman, there are great mutual interests between the nations of the Caribbean Basin and the United States. This particular time in history underscores the special character of that relationship. Revolutionary change is sweeping across the Soviet Union and Eastern Europe. We all applaud those developments. However, there is the potential that those developments will cause a deflection of our nation's interests from some of the urgent concerns in our hemisphere. The consideration of this legislation will be an indication that we have not lost sight of our hemispheric concerns.

Second is that economic assistance to the Caribbean Basin has fallen dramatically. It fell by 22.2 percent last year alone. Economic support funds have been zeroed out for every country in the Caribbean except Jamaica and Ghana. This is a time, Mr. Chairman, when we are asking the Caribbean Basin nations to take on new responsibilities such as an increased effort in the war against drugs.

At a meeting last month in Jamaica Prime Minister Manly stated that the amount of money which the Jamaican treasury was spending on increased drug enforcement activities, much of it at the request of the United States, almost equalled the reduction in economic aid which Jamaica received between 1988 and 1989.

Another factor that is occurring now, Mr. Chairman and Senator Chafee, is a dramatic indication of the depth of democracy in this region of the world. It was only a generation ago that there were only a handful of democracies in the Caribbean Basin. In the last 2 years, there has been a veritable election binge unprecedented in the history of this region of the world.

In 1989 elections were held in Belize, El Salvador, Honduras, Antigua, Jamaica, St. Kitts and St. Vincent. This year already Costa Rica has already held elections. Others scheduled for 1990 include

Nicaragua, the Dominican Republic, Grenada, Dominica and possibly Ghana. So when we speak about reenforcing democracy, we have a region of the world that is a bloom in democracy and will need the sustained economic assistance and support and encouragement which this legislation will provide in order to continue to prosper.

Mr. Chairman, you commented about some of the specific aspects of the bill. I would like to just focus briefly on three. First, it is very important that we extent the CBI period. CBI passed, as you indicated, in 1983 with a 12-year period. So that takes it through the mid-1990's. If we are going to encourage long-term investment in the region, investors need to know that they will have assurance of the continuation of the CBI beyond the mid-1990's.

Second, I hope that we will be able to work out some of the areas of suggested extended benefits, such as in textiles, leather goods and petroleum. These were excluded from the original CBI. We would hope that they can be addressed in this consideration for extension.

And finally, the issue of sugar. The reduction of access to the U.S. market at preferential rates of sugar has undermined much of the economic benefit which the CBI provided. In this legislation we are proposing to set a floor on the guaranteed sugar access quoted in the United States of the level that existed in 1988. And now that as a result of some domestic climate problems that level has increased, we would urge the committee to even consider raising that quota to a more contemporary date.

Mr. Chairman, again, I appreciate your early attention to this legislation and will look forward to working with you to secure its early passage.

Senator BAUCUS. Thank you very much, Senator. Depending upon your time constraints, we would be more than honored to have you stay for part of the hearing.

I just have one question. Your bill is a little more comprehensive than the one introduced by Senator Gibbons over in the House. I am curious as to how strongly you support yours and the degree to which you are amenable to working out a compromise between the two—that is, slimming down the legislation that passes?

Senator GRAHAM. Well there are some areas of slimming down and there are some areas of fattening up. The House bill contains some provisions that were not in the Senate bill as introduced, such as a provision for increased scholarship assistance for students in the Caribbean Basin to study in the United States. I strongly support that House addition to the bill as introduced in the Senate.

The principal areas of controversy are going to be providing benefits in areas such as textiles that were excluded in the original CBI and dealing with the question of a floor for sugar, as maybe not to the degree of the Chairman or Senator Chafee, but I consider myself to attempt to be a reasonable man and look forward to engaging in the legislative process of compromise and accommodation to arrive at a bill which will be satisfactory to this committee, the Senate, and the Congress, and the President.

Senator BAUCUS. Okay. Thank you.

I have no more questions. Senator Chafee?

Senator CHAFEE. Mr. Chairman, unfortunately, I have to be in the majority leader's office at 10:30 so will not be here for a good portion of this testimony and I apologize to Ambassador Hills for that. And I want to say to Mr. Laing that I have had the pleasure of visiting his country and have been greatly impressed with everything that is taking place there.

Senator Graham, just briefly—and I am not putting you on the spot because you may not be familiar with the facts here—you pointed out that our aid to the countries has decreased. Why is that? Is that because of earmarking under the foreign aid legislation? Because I do not think the total amount of our overall aid budget has decreased, has it? It seems to me it stays around $14 billion.

Senator GRAHAM. Senator, I cannot answer that question in detail. But I assume it is the same reason that our aid to a number of other developing countries has been reduced or terminated; and that is, a new set of priorities.

Senator CHAFEE. Some of it is going to Eastern Europe?

Senator GRAHAM. Yes, particularly Eastern Europe.

Senator CHAFEE. I see. And it may well be that so much is earmarked that when we do anything for Eastern Europe, the money must come out of a nonearmarked fund, and the nonearmarked funds are probably to the Caribbean nations.

Maybe Ambassador Hills can touch on that when she testifies, if she happens to know about it. And obviously, I can get it from other sources.

Thank you very much, Senator. I just want to thank you for the energy you are putting into this. Because I feel very strongly that it behooves us as a nation to pay attention to the Caribbean and all eyes seem to be focused in Europe, which is important, or the Pacific Rim. That is very popular these days. But I think we have to pay attention to those countries that are our closest neighbors. I understand this group of countries constitutes the 10th largest market for our goods. I believe that is in the testimony here somewhere.

Senator GRAHAM. That is correct, Senator, and also has been a very loyal source of customers for U.S. goods.

Senator CHAFEE. That is what I meant.

Senator GRAHAM. If you have traveled in this region you see distinguished American business names on products to a degree that you do not witness in other areas of the world. This is an important, loyal set of allies, politically and economically, and I believe that what we have done and what this legislation will attempt to extend and expand is very much consistent with that good relationship.

Senator CHAFEE. Our exports to the Caribbean countries totaled $7.4 billion in 1988. The Caribbean was the tenth largest U.S. export market. So that behooves us to pay attention to what they are doing and be helpful if we can.

Senator GRAHAM. Thank you.

Senator BAUCUS. Thank you, Senator. Ambassador Laing, welcome to the committee, too.

Ambassador Hills.

STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman. In the interest of time, with your permission, I would like to submit my written statement for the record and just summarize a few points.

Senator BAUCUS. Included.

[The prepared statement of Ambassador Hills appears in the appendix.]

Ambassador HILLS. As Senator Graham mentioned, Senate consideration of this legislation comes at a time of dramatic and rapid change all around the world. In this hemisphere the people of Panama are once again free to pursue their own destiny. We are acting as quickly as we can to help get Panama's economy back on its feet and extending and expanding benefits under the CBI would greatly assist our efforts.

Acting quickly now on the CBI legislation is important. We need to demonstrate to investors that the Caribbean Basin is an attractive location for their capital by providing them with the assurance that their program will remain in effect well beyond 1995. That may seem like a long time off, but it is not in the eyes of the investor.

Let me briefly review some of the economic trends in the region. The total U.S. imports from the region have gone down since the program began in 1984 and that is because of the reduced value of our petroleum imports. However, nonpetroleum imports have increased 30 percent during the period. The composition of our imports from the region have actually shifted from traditional products—petroleum, coffee, sugar—to nontraditional products—textiles, shell fish and electrical articles. Nontraditional imports have jumped 75 percent since 1989 and now make up more than half of our imports from the region.

The United States is benefiting from this trade relationship. Last year we ran a $1.4 billion surplus in the Basin. Overall, we believe the economic trends provide evidence that the CBI is helping the region while benefiting the United States.

Because you have two versions of the CBI legislation under consideration—H.R. 3299 and S. 504—I would like to mention two things that affect our objectives. One is, we strongly support extending the life of the CBI program on a permanent basis. And secondly, we would like to offer the CBI beneficiaries some increase in export opportunities to the United States market by liberalizing and securing access for an expanded range of products.

Both the House and the Senate version would extend the program and send a clear message to potential investors that they can depend on the long-term continuation of CBI. We do, however, believe that only one report, every 3 years, should be required. A biannual report would not provide the security that our investors seek.

There is a provision in both bills pertaining to sugar that we do not approve. The provision would be clear violations of our GATT undertaking. So the administration cannot approve legislation that contains a sugar provision reallocating and providing for preferential quotas.

One of our objectives in the legislation is to enhance market access for the beneficiaries. We are sensitive to the Chairman's comment that we need to strike a balance between providing new benefits to the Caribbean and the legitimate interests of our producers and workers; and we believe that working with the Congress, with the members of this body, that we can strike such a balance.

So let me conclude by saying that we are strongly committed to a dynamic and vigorous program of economic development in the Caribbean Basin. The CBI is working well in many respects. And a properly strengthened and particularly extended CBI could accomplish much more.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you very much, Madam Ambassador.

I understand that the administration will submit a list of suggestions and additions to CBI II. Is that correct?

Ambassador HILLS. Yes. We are working in an interagency fashion, contacting the private sector and working with our Embassies abroad trying to come up with ideas for enhancing the package of benefits.

Senator BAUCUS. When will you have those sent to the Congress?

Ambassador HILLS. Very shortly.

Senator BAUCUS. Could you please expand a little bit on the administration's objection to the sugar provisions?

Ambassador HILLS. Our sugar program is based upon a waiver and we are not permitted to reallocate the quota—our quota restrictions on sugar—under our GATT obligations. We believe, in fact, were we to try to do that, other nations would object and we might indeed lose our waiver.

We, of course, are negotiating within the current Uruguay round of multilateral talks, seeking to deal with all agriculture restrictions in a multilateral agreement. So it may very well be that if other nations are willing to bring down their protections on certain products that we would be willing to bring down ours. Opening markets would have an effect that would be very beneficial to the Caribbean nations. But under our current obligations we are precluded from having preferential reallocations.

Senator BAUCUS. Would you recommend a veto if the bill were to include a sugar provision similar to the one contained in the House bill?

Ambassador HILLS. I would like to supply an answer to that. Whether we would actually veto the legislation, I will let the Chairman know shortly.

Senator BAUCUS. Thank you.

Ambassador, another question concerns the concession for ethanol market in this country. As you know, one of the reasons that President Reagan gave for vetoing the 1988 trade bill was that it contained provisions to increase CBI access to the American ethanol market.

I assume the Bush administration will continue the precedent set by the Reagan administration and oppose opening the U.S. ethanol market—that is by continuing that tariff concession. Is that correct?

Ambassador HILLS. There was a carefully crafted ethanol provision in the House bill that took a long time to work out. The administration was part of that compromise. So the way that is crafted is now a provision that we could support.

Senator BAUCUS. I have heard concern that the accumulation exemption might lead companies interested in dumping in the U.S. market to locate in the Caribbean in order to circumvent the U.S. law. Your reaction?

Ambassador HILLS. We do not think that there is a problem with the accumulation opportunities that are offered to the Caribbean Basin.

Senator BAUCUS. I have no further questions. I thank you both very much for your presence this morning.

Ambassador HILLS. Thank you.

Senator BAUCUS. Just for the information of those interested, Senator Bradley has submitted some questions for the record which he will want the administration to answer. I will include those questions in the record at this point.

[The questions appear in the appendix.]

Senator BAUCUS. Okay, let's move to the next panel. The panel includes Mr. Paul Sticht, who is vice chairman of the Caribbean/Central American Action and chairman and chief executive officer (retired) of RJR Nabisco; next, Mr. Paul McCormack, director of imports for St. Eve International; and Mr. James Hartman, vice president, director of buying, Footlocker, Division of Kinney Shoe Corp. Would those three please come to the witness table so we can begin.

Each of you know that we're operating under very strict time constraints. In fact, I, too, have to get to that meeting in the Majority Leader's office. I will be late, obviously. So I ask each of the witnesses to limit their remarks to 3 minutes.

Mr. Sticht, why don't you begin.

STATEMENT OF J. PAUL STICHT, VICE CHAIRMAN, CARIBBEAN/CENTRAL AMERICAN ACTION, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER (RETIRED), RJR NABISCO CORP., WINSTON SALEM, NC

Mr. STICHT. Thank you, Mr. Chairman. In addition to the formal testimony that I presented in writing, I appreciate the opportunity of adding these few brief remarks. I believe, and the organization that I represent believes, that the economic health of the Caribbean Basin countries is the key to the survival of freedom and democracy in this region.

The CBI was an important first step to accomplish those objectives and it is important that we move to improve the deficiencies and to make more permanent the program of the CBI. It is clear from our experience to date that the first steps taken under CBI have been a tremendous help to the economic development of the region. And at the same time it is interesting to note that exports from the United States to this area have grown substantially and we have a very favorable balance of trade for the United States.

A stable political and economic climate is extremely important to encourage more private investment in the development of export

industries for the region. A great majority of the many manufactured goods that can be produced in this area are still coming from the Western Pacific Basin, which suggest that many opportunities exist with the proper encouragement in the area.

I have had some personal experience in this area. If I may just digress for a moment, my company, which I headed for many years, included Delmonte. About 10 years ago most of the fresh pineapple we brought into the United States, mainly the United States market, was from Hawaii. It really was not very practical to serve the eastern part of the United States with a fresh product from Hawaii.

We decided to have a look at the Caribbean Basin and we first looked at Costa Rica. We looked at Costa Rica because at that point it looked to be the most stable area and most favorable to business climate.

In short, we ended up by investing $35 million in the pineapple plantations in Costa Rica, something that had not been done before, and it has developed into a very favorable business situation which has resulted in being able to supply the eastern U.S. market, east of the Mississippi, with a high- quality, fresh product at a much lower cost than could have been supplied from our operations in Hawaii. At the same time, it did not hurt our operations in Hawaii.

But I underline the importance of that decision.

One thing that we must keep in mind as we go about trying to——

Senator BAUCUS. I am going to have to ask you to summarize, Mr. Sticht.

Mr. STICHT. I just want to add that we should keep in mind the perception in the Caribbean. I underline perception. There is a difficulty of getting goods shipping into the United States—another part of the program. I think we need to understand that this may be a perception and not be a fact. But we need to deal with the perceptions as well.

Thank you very much.

Senator BAUCUS. Thank you very much, sir.

[The prepared statement of Mr. Sticht appears in the appendix.]

Senator BAUCUS. Mr. McCormack.

STATEMENT OF PAUL McCORMACK, DIRECTOR OF IMPORTS, ST. EVE INTERNATIONAL, INC., AND CO-CHAIRPERSON, TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, NEW YORK, NY

Mr. MCCORMACK. Good morning. Thank you.

My name is Paul McCormack, Director of Imports for St. Eve International, an importer and a manufacturer of women's intimate apparel and co-chairperson of AAEI's Textile and Apparel Group.

The American Association of Exporters and Importers, a national association comprised of 1200 U.S. company members, appreciates the opportunity to comment on the Caribbean Basin Economic Recovery Act or CBI II. AAEI members are involved in virtually every aspect of international trade with over 300 members trading

in textiles and apparel, making it the largest Association representing such firms, and over 50 members in its Footwear Group.

AAEI has long been a leading voice for the liberalization of the international trading regime and for strengthening the economies of developing countries by facilitating access to U.S. markets. Therefore, the Association supports the extension of and the moderate duty reduction proposed under CBI II so long as other trading nations are not disadvantaged by liberalization taken under the CBI.

The Association is very much in agreement with President Bush who recently stated that CBI countries should continue to enjoy special and more liberal treatment under our textile import program. The textile and apparel industry is the Caribbean Basin's single largest employer, an important source of foreign exchange, and is essential to the continued development of the precarious economies of CBI countries.

Moreover, not only do U.S. consumers benefit from lower prices and greater choice, but U.S. apparel manufacturers are, by in large, the biggest beneficiaries of any reduction in duty under the CBI.

Specifically, the Association supports the provisions of H.R. 3299 related to the guaranteed access level program, whereby CBI apparel assembled from fabric that is both cut and formed in the United States is subject to special flexible quota limits. Those provisions would codify the existing GAL program, require the USTR to enter into negotiations with CBI countries requesting GAL's and extend duty-free treatment to products entered under GAL's.

The Association also supports the proposed 50 percent duty reduction for other currently excluded textile and apparel products. My firm would directly benefit from such a 50 percent duty reduction on goods we are currently producing in the Dominican Republic. These proposed amendments to the textile and apparel provisions of the CBI would provide no greater quantitative access to the U.S. market than is currently enjoyed by Caribbean countries, but would, nevertheless, increase the attractiveness of sourcing from the CBI.

Firms such as mine might further expand their business with the Caribbean region if such duty reductions were put in place. The Association urges, however, that any liberalization of textile and apparel under the CBI be taken in the context of U.S. commitments to liberalize textile and apparel trade by reintegrating textiles into the GATT. Thus, any liberalization under CBI should not restrict further the overall level of trade or disadvantage other exporting countries.

While generally supporting the proposed amendments of the CBI, AAEI's Footwear Group believes the proposed changes do not go far enough. Instead of only a 50-percent reduction in duties on footwear as proposed, all footwear should be duty-free from CBI countries so that U.S. consumers, manufacturers investing in the CBI, and Caribbean countries themselves can realize the full benefits of this CBI program.

Thank you very much, sir.

Senator BAUCUS. Thank you, sir.

[The prepared statement of Mr. McCormack appears in the appendix.]

Senator BAUCUS. Mr. Hartman.

STATEMENT OF JAMES J. HARTMAN, VICE PRESIDENT, DIRECTOR OF BUYING, FOOTLOCKER, DIVISION OF KINNEY SHOE CORP., TESTIFYING ON BEHALF OF FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA, NEW YORK, NY

Mr. HARTMAN. Good morning.

I appear today on behalf of the Footwear Distributors and Retailers of America, which represents some 20,000 retail chain stores nationwide, the footwear distributors that service them. Our Association accounts for more than half of all the retail shoe sales in America and the bulk of all imported footwear.

I am accompanied by Mr. Peter Mangione, our counsel from the FDRA. The FDRA urges the adoption of a 50-percent duty reduction on nonleather footwear imported from the Caribbean Basin countries for the following reasons: First, the duty reduction would offer U.S. consumers substantial savings, particularly for rubber fabric footwear where shoe duties are as high as 67 percent; secondly, giving Caribbean countries this duty advantage would result in the shift of shoe imports of these products from Asian producers to Caribbean countries and would not result in additional shoe imports; third, the duty reduction will not result in the loss of U.S. shoe manufacturing jobs because imports despite the high U.S. duties are already much cheaper than U.S. made products.

To illustrate why we believe that the duty reduction will not result in additional imports or harm U.S. production we have brought samples of United States and imported products with us today. We have the Converse Chuck Taylor Allstar shoe, U.S. made, which retails for about $28; a comparable imported product, a Kinney Stadia, retails for about $18 and again is imported. Thus, despite the huge 67-percent duty on these sneakers, the imported product today is some $10 cheaper at retail.

The U.S. product is successful in the market place because of its brand name. It does not compete on a price basis with the much cheaper import. Since the two products do not compete presently, a reduction in the import price through a duty preference will not affect their competitive positions. This distinction between name brand marketing and price or value marketing is extremely important in consumer terms.

A 67-percent duty on low-price sneakers is an unconscionable burden with which to saddle the struggling American families today. This burden, a last vestige of Smoot Hawley, is especially tragic given that the high tariff is not needed to protect U.S. production.

At the lowest end of the price scale of rubber/fabric shoes are large volumes of shoes produced in China. These are handmade styles that retail for under $10; we have samples that retail for $5 and $7 respectively. There is no U.S. production of these products. Yet, the duty is 48%.

The U.S. made rubber/fabric shoes that retail under $10 are different. They are machine made and come in only limited styles,

due to the heavy bottoms that are required in the production process.

Also, since these are machine made, they require little labor. Since the advantage of Caribbean production would be low labor costs, the bill creates no incentive for U.S. producers to shift low labor, machine operations to the region.

The labor intensive component of a shoe—the upper is already made in the Caribbean in large quantities with the shoe completed in the United States with little labor input. This would continue under the bill especially since the bill's textile provisions would eliminate the 11 percent duty presently applied to these uppers.

The 50-percent duty reduction on footwear from the CBI countries would be of enormous help to the struggling Caribbean nations, obviously creating new jobs. The new jobs created by the duty preference would replace ones in Asia, not in the United States.

Thank you.

[The prepared statement of Mr. Hartman appears in the appendix.]

Senator BAUCUS. Thank you very much, gentlemen. To some degrees at least two of you tended to focus on products that are important to your industry. None of you really focused on the sugar provision. Is it worth eliminating the sugar provision in order to keep the provisions you are interested in? I know the answer to that question. [Laughter.]

Let me state it differently. What advice do you have with respect to the sugar provision, because it is obviously controversial? And indeed some of the footwear and leather provisions are also controversial. But you are a little more objective perhaps with respect to the sugar provision. I would like your input on that.

You heard the administration's strong objection.

Mr. STICHT. Any number can play?

Senator BAUCUS. Any number.

Mr. STICHT. Well in the first place, the most important thing we can do is be consistent and predictable and even handed in the region so that people who are investing in the region can have some confidence into the future.

As far as these individual questions are concerned—and I include sugar—I think that the consistency and making exceptions only create problems. I do not have any——

Senator BAUCUS. What do you say to American sugar beet producers, who will say that other countries—like the European community—protect their markets more than the United States? Why should we grant even more concessions at the expense of our sugar producers?

Mr. STICHT. Well, sugar has been grown in these areas—can has been grown for a long time. I think one of the things we have to do in our approach to the problem is to provide options for sugar. I am not clear how much of the sugarlands can be used for growing other projects. But what I am clear, and my experience would indicate, if we encourage the development of other industries where we can put those peoples of work doing other things than chopping cane that we have really made a great advance in what we are trying to do in the area.

So I think part of the answer to the cane problem is providing other opportunities, which encouragement of investment in other businesses such as has been my experience will deal with.

Senator BAUCUS. Okay. Well, it is obviously controversial. I do represent some beet producers—a good number of them. It is a question that they have asked frequently.

Thank you all very much. We appreciate your testimony.

The next panel includes Mr. Mark Love, vice president of Economic Consulting Services, testifying on behalf of Leather Products Coalition; Mr. William Cunningham, legislative representative, AFL-CIO; and Mr. Mitchell Cooper, counsel for the Rubber and Plastic Footwear Manufacturers Association.

Gentlemen, will you please come forward and be seated.

Mr. Love.

STATEMENT OF MARK W. LOVE, VICE PRESIDENT, ECONOMIC CONSULTING SERVICES, INC., TESTIFYING ON BEHALF OF LEATHER PRODUCTS COALITION, WASHINGTON, DC

Mr. LOVE. Thank you. My name is Mark Love. I am vice president of Economic Consulting Services and appear today on behalf of the Leather Products Coalition. Also present, representing the Coalition is Fawn Evanson, president of Footwear Industries Association and Mr. Joe Cook, executive director of the Work Glove Manufacturers Association.

The products of concern to us include footwear, leather apparel, luggage, personal leather goods, work gloves and handbags. The action we seek is preservation of the exemption from preferential duties on imports from CBI countries.

The original version of CBI introduced early last year, like the current Senate bill, called for the removal of CBI exemptions, including those for petroleum, tuna, textiles, apparel, footwear and leather-related products. During the year we saw these exemptions restored by the house one-by-one, except for leather-related products.

We strongly support the restoration of the exemptions on footwear and textiles. However, we are dismayed that the leather related products alone have been singled out by the House for CBI duty reductions. There is no justification, whatsoever, for this treatment. On the contrary, all of our products are import sensitive and each equally merits exemption. To wit, all of our products have long been statutorily exempt from GSP treatment specifically because they are import sensitive.

Imports and import penetration in each of these products has increased dramatically since CBI I first passed. The health of these industries, with current employment of 135,000 workers at risk, is more precarious today than in 1982. Yet in 1982 Congress specifically stated that these industries would not survive if faced with duty-free imports from the Caribbean.

Finally, the current wave of investment in the Caribbean by far eastern interests, estimated to reach $10 billion over the next few years, certainly promises that more imports of these products will enter the United States without the duty stimulus contemplated by the various CBI II proposals.

Besides the direct impact of the proposed duty reduction there are puzzling anomalies created by the House version. For example, many companies and workers in the Coalition are engaged in making their products of textiles and of leather-related materials. How can a company or worker merit exemption when making one product and then not merit exemption on the same product because it happens to be made of a different material? There are other similar anomalies that are in our statement which I do not have time to go into.

I would simply conclude with the broad observation that CBI I has not been the miserable failure that some CBI II proponents claim.

Ambassador Hills earlier this morning laid out trends in trade during the CBI I regime indicating that the drop in imports from the CBI during that period was really due to a massive drop in imports of petroleum products as well as other traditional products such as sugar and coffee. All other imports actually rose and this growth was led by manufactured products, including products of our Coalition.

I would make one final comment—that is, that we believe the Coalition has in fact contributed so far to Caribbean Basin growth and it will contribute in the future as well, even without further duty reductions.

Thank you.

Senator BAUCUS. Thank you very much, Mr. Love.

[The prepared statement of Mr. Love appears in the appendix.]

Senator BAUCUS. Mr. Cunningham.

STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AFL-CIO, TESTIFYING ON BEHALF OF AFL-CIO, ILGWU AND THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, WASHINGTON, DC

Mr. CUNNINGHAM. Mr. Chairman, thank you very much for inviting us here. I am testifying on behalf of the AFL-CIO with Evelyn DuBrow from the Garment Workers and Liz Smith from the Amalgamated are both here. We will keep within the 3 minutes. We appreciate the efforts of you and your staff in this effort.

Let me just make the points that are outlined in my testimony, Mr. Chairman. Trade-based foreign policy, which we are practicing, is not free and it is not without cost. CBI has not been effective. It has not increased trade from the CBI to the United States and it has cost jobs here at home.

This administration has just submitted its budget on foreign aid and has cut assistance to the CBI. So what we are doing is, substituting U.S. market access for a foreign policy that features foreign aid. I think that is a mistake and the impact on jobs you well know.

Let me just make two other points. One point is that any time you make an article duty-free, which is the essence of what people want to do in CBI. I sincerely believe the Customs Service loses track of that article. If they do not collect a duty on it, then you have the problems of trans-shipment and increased imports into the United States that affect U.S. workers.

The second point I would like to make is that the Congress has legislated CBI treatment in the past and the prior administration has basically given CBI treatment to Mexico—deemed it eligible for CBI. This committee, when they legislate for CBI, should be aware that they may be legislating the same treatment—trade treatment—for Mexico. It is something to keep in mind.

Finally, I would like to just note that I am the thorn between two roses, and one of the roses is Evelyn DuBrow who wants to tell you how this bill affects her people.

STATEMENT OF EVELYN DUBROW, VICE PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO, WASHINGTON, DC

Ms. DUBROW. Thank you, Mr. Chairman.

I would simply like to make two points in order to stay within the 3-minute limit. First of all, we found out that the Customs value of all products shipped was 22 percent lower in 1989 than in 1983 when the CBI began. So we question how successful the program is.

The other point I would like to make, that since 1983 we have lost 86,000 apparel jobs in this country; and we continue to lose them. I would like to point out, however, that we would like very much to help the Caribbean Basin nations. Many of our members come from those areas. What we find now is an attempt to take jobs away from those people who are here coming from the Caribbean nations and giving them to workers in those areas which would make one group fighting against the other.

It is the matter of low wage standards and sweat conditions and child labor which cause the problem in the Caribbean Basin nations. What I would like to suggest is there ought to be a look at the whole world apparel quota system (MFA) and decide whether there is not something we can do for the Caribbean Basin nations by taking quotas away from other countries that do not need them as much.

Mr. CUNNINGHAM. Could you just indulge us, Mr. Chairman? We have one more.

Senator BAUCUS. Thank you. Very briefly.

STATEMENT OF ELIZABETH M. SMITH, LEGISLATIVE AND POLITICAL DIRECTOR, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, WASHINGTON, DC

Ms. SMITH. Thank you, Mr. Chairman. I will be brief.

Mr. Chairman, we oppose this bill reluctantly because we do want to aid the Caribbean nations; and, as a matter of fact, our Union has sponsored several training programs. We have close relationships with unions in the Caribbean nations where we have gone down to train workers, even provided sewing machines to them.

Senator BAUCUS. I am afraid I am going to have to ask you to summarize, Ms. Smith.

Ms. SMITH. Imports of apparel from the Caribbean went up 26 percent last year, have averaged over a 20-percent increase every year, which is a very good high considering the United States sup-

ports a multi-fiber arrangement that calls for only a 6-percent growth. The workers in our industry are 75 percent women, 36 percent minority and a large number of Asians. These workers are the most vulnerable workers in the United States.

Senator BAUCUS. Thank you.

Ms. SMITH. And we wish they would not be asked to bear the sacrifices for the most vulnerable workers in the Caribbean.

Thank you.

Senator BAUCUS. Thank you very much.

Mr. Cooper.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION, WASHINGTON, DC

Mr. COOPER. Thank you, sir.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for the manufacturers of most of the waterproof footwear and rubber-soled fabric upper footwear produced in this country. This Association opposes any amendment of the CBI which would reduce duties applicable to the products of the domestic rubber footwear industry. Rubber footwear is a labor intensive, import sensitive industry, whose future is currently at stake in the Uruguay round.

For the first 9 months of 1989 fabric upper footwear imports constituted 72 percent of our market and waterproof imports 33 percent and rising. The annual rate of penetration is higher now than it was during either the Kennedy or Tokyo round when the government agreed that rubber footwear duties should not be cut. And it is also higher than when Congress exempted rubber footwear from GSP treatment and subsequently from the Caribbean Basin initiative as originally enacted.

In recent years, Government Agencies have expressed the view that what is left of the industry should be preserved if possible. In a series of reports from 1981 to the present the Department of Defense, after examining the capability of domestic waterproof manufacturers to meet mobilization needs concluded that, "Loss of one or two of our current major suppliers would seriously jeopardize our ability to meet military requirements under surged mobilization conditions." That is from the 1981 report.

And the 1988 report says, "This industry segment has been severely affected by imported goods which are produced by labor pools with much lower pay scales than our prevalent in this country. Foreign market penetration has made finding domestic producers very difficult."

In 1973 this industry employed 26,300 production workers. For the first 9 months of 1989 employment averaged 9,000. Rubber footwear is a relatively unsophisticated product to manufacture. In 1988 about 1 million pairs came to this country from the Caribbean. This is a mobile product which will be manufactured wherever the cost of production is the lowest. There is no reason, given the proximity of the United States, why the Caribbean countries cannot successfully compete with countries such as Thailand at existing rates of duty.

Indeed the Dominican Republic has already demonstrated that our duties are not an impediment to Dominican exports. Several months ago the Investment Promotion Council of the Dominican Republic issued a press release, which reads in pertinent part as follows: "Data for the first 8 months of 1988 show that exports of two footwear components alone—leather and cotton shoe uppers—were valued at $50.1 million. It reached a volume roughly triple the figure of 1985." They go on to say that they are now manufacturing completed footwear.

There has been no new domestic manufacture of rubber footwear in the past several years and many companies have found it necessary to close their plant or sell their brand names to importers or themselves become importers. If S.504 were to be passed in its present form the Caribbean Basin would be entitled to exports of this country in excess of 8 million pairs of rubber footwear duty-free in contrast to the fully-dutied 1 million pairs in 1988.

This would be an open invitation to American producers to fire employees, to close domestic plants and to ship their assets to the Caribbean. I am here to tell you, Mr. Chairman, that some domestic manufacturers have contingency plans to do just that.

The rubber footwear industry is gravely concerned about the threat posed to it by the Uruguay round. At the very least, we would suggest that no action be taken until the results of the Uruguay round can be assessed.

In conclusion, Mr. Chairman, may I say that the industry described for you this morning by Mr. Hartman is not the industry that I represent. Rubber footwear production competes at every price level with imports, including, for example, the products of Carter footwear of which millions of pairs, as Mr. Hartman must know, would sell through discount stores in this country at less than $5. That kind of production will shift to the Caribbean. American jobs will be lost if this bill passes in its contemplated form.

Thank you.

[The prepared statement of Mr. Cooper appears in the appendix.]

Senator BAUCUS. Thank you very much for that forceful statement. We appreciate that.

I have two basic questions for each of the panelists. Do you support the CBI concept as it is or do you not? That is the first question. And second: If you do, I assume that you oppose the expansion as well as the extensions. That is really the basic question. Is it the expansion you oppose or is it the CBI concept itself?

Mr. CUNNINGHAM. I think we could probably live with the extension of the CBI as long as the exempt list, which is in present law, remains in place. We do not believe though that a trade based foreign policy is the best way to go for the United States. But we could live with CBI extension, permanent extension, if pressed, if the exempt list stays in place.

Senator BAUCUS. I see. Okay.

Mr. Love?

Mr. LOVE. The Leather Products Coalition is certainly in sympathy and support of economic development in the Caribbean. As I mentioned, there is already significant production in that region, something that the Coalition certainly would not oppose.

However, we would agree with Mr. Cunningham that removal of the exemptions from duty-free treatment should not occur. Extension in time is not a problem.

Senator BAUCUS. So you basically agree with Mr. Cunningham?

Mr. LOVE. That is correct.

Senator BAUCUS. Okay. Mr. Cooper?

Mr. COOPER. I would share that view. I would add to it that my clients completely support the concept of the CBI and we take seriously what Ambassador Hills told you this morning, that the legitimate interests of domestic industries will be taken into account.

I should tell you that in the formulation of this bill that is now before this committee, as well as the bill that was before the Ways and Means Committee, this domestic industry was never consulted. It now appears that it will be. We welcome the prospect of such consultation. We will work with the administration. We would work with the Staff of your committee. If anything can be done without jeopardizing the fate of domestic production we certainly would want to cooperate.

Senator BAUCUS. I appreciate that, Mr. Cooper. Frankly, at this very moment I am going over to a meeting with the Majority Leader and he, as you know, as a very definite view.

Mr. COOPER. If domestic production will suffer, the State of Maine will be on the list.

Senator BAUCUS. I think that is what I will hear.

Thank you all very much. We appreciate it.

[Whereupon, the hearing was concluded at 11:00 a.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF MITCHELL J. COOPER

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for the manufacturers of most of the waterproof footwear and rubber-soled, fabric-upper footwear produced in this country.

This Association opposes any amendment of the CBERA which would reduce duties applicable to the products of the domestic rubber footwear industry.

Rubber footwear is a labor-intensive import-sensitive industry whose future is currently at stake in the Uruguay Round of multilateral trade negotiations. Its duty rates are high but are not protective, since market access has been readily available to low-cost exporters who play a dominant role in the American market-place.

Over the past twenty-five years the import-related problems of the domestic rubber footwear industry have been frequently investigated by the Congress and various Government agencies with the consistent finding that the duties on the products of this industry should not be cut. In 1988 imports of fabric-upper rubber-soled footwear took 67 of the American market and imports of waterproof footwear 38%. For the first nine months of 1989 fabric-upper footwear imports constituted 72% of our market and waterproof imports 33%.[1] The annual rate of penetration is higher now than it was during either the Kennedy or Tokyo Hound of tariff negotiations, when the Government agreed that rubber footwear duties should not be cut, and is also higher than when Congress exempted rubber footwear from GSP treatment and subsequently from the Caribbean Basin Initiative as originally enacted. Appendices I and II, attached hereto, show the history of domestic production, exports imports consumption and import penetration for the products of this industry.[2]

In recent years Government agencies have not only decided that rubber footwear duties should not be cut, but have also expressed the view that what is left of the industry should be preserved if possible. In a series of reports from 1981 to the present the Department of Defense, after examining the capability of domestic waterproof manufacturers to meet mobilization needs, concluded that "loss of one or two of our current major suppliers would seriously jeopardize our ability to meet military requirements under surge/mobilization conditions" (1981 Report); ". . . the domestic capacity would be insufficient to satisfy all of the military departments' requirements in a surge or mobilization situation" (1983 Report); with reference to certain specialized waterproof boots, ". . . this industry segment has been severely affected by imported goods which are produced by labor pools with much lower pay scales than are prevalent in this country. . . . Foreign market penetration has made finding domestic producers very difficult" (1988 Report). In 1981 the Department of Commerce issued a special report on domestic and import competition in the rubber footwear industry, noting the steady decline in domestic shipments and steady increase in imports of rubber-soled footwear with fabric-uppers between 1964 and 1980.

In 1973, this industry employed 26,300 production workers. BY 1980, the last year covered by the Commerce Department report, employment had fallen to 19,800. The figure for 1988 was down to 9,650, and for the first ten months of 1989 employment

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[1] It should be noted that waterproof penetration has mounted steadily during 1989: It was 23% for the first quarter, 31% for the second quarter and 46% for the third quarter.

[2] Figures for waterproof footwear do not go back as far as those for fabric-upper footwear because the Government did not publish figures for waterproof prior to 1975.

averaged 9,000 in contrast to 9,700 for the first ten months of 1988. This employment history is spelled out in Appendix III. The arguments we made during the Kennedy and Tokyo Rounds, when employment was considerably higher than at present were proven valid then and are even more valid now, both with respect to the world in general and the Caribbean Basin in particular.

Rubber footwear is a relatively unsophisticated product to manufacture. While in 1988 the vast majority of the industry's import competition was from the Far East, about one million pairs of rubber footwear came to this country from the Caribbean. History has demonstrated that this is a mobile product which will be manufactured wherever the cost of production is the lowest. Thus, during the Kennedy Round some 70% of imports were from Japan, but, as Japanese wages rose, manufacturers shifted first to Korea then to Taiwan and more recently to the Peoples Republic of China and to such Pacific Rim countries as Thailand and Indonesia. Attached hereto as Appendix IV is a print-out, by country of origin, of rubber footwear imports from 1984 to 1988.

There no reason, given the proximity to the United States, why the Caribbean countries cannot successfully compete with countries such as Thailand at existing rates of duty. Indeed, the Dominican Republic has already demonstrated that our duties are not an impediment to Dominican exports. That country has a significant industry for the manufacture of uppers for both rubber and non-rubber footwear. Several months ago the Investment Promotion Council of the Dominican Republic issued a press release which reads in pertinent part as follows:

> Data for the first eight months of 1988 show that exports of two footwear components alone (leather and cotton shoe uppers) were valued at $50.1 million, and reached a volume roughly triple the figure of 1985. *Also, the footwear industry here is beginning to "mature" and diversify into the production of complete shoes.* (Emphasis added)
>
> In most cases the companies perform the labor-intensive hand sewing of shoe uppers in the Dominican Republic to take advantage of the competitive wages (the minimum wage is US $0.41 per hour, and US $0.60 includes fringe benefits) The shoes are then "bottomed" in the nearby U.S. for distribution. The production sharing arrangement with Puerto Rico allows eligible companies to qualify for 100% U.S. Federal tax exemption, 90% Puerto Rico tax exemption, and quota free access to the U.S. market.
>
> Shipments of leather uppers (TSUS 79127) in the first eight months of 1988, for example, were valued at $37.8 million. This was 27.3% higher than the same period in 1987, when total shipments of this item were valued at $49.8 million.
>
> Production of cotton uppers (TSUS 38652) grew at an even more dynamic rate. By the first eight months on 1988, they had already reached $12.3 million, 61.8% higher than the figure for the similar period in 1987 (total shipments that year were valued at $13.2 million)."

There has been no new domestic manufacturer of rubber footwear in the past several years, and the following domestic companies are among those which have either closed their plants, become importers, or sold their brand names to other importers:

> Hyde Athletic Industries, Prevue Products, Gold Seal Rubber Company, Bristol, Bata, Adidas (a prominent West German manufacturer which until recently had one plant in the United States) and Nike (the industry's volume leader which closed its Maine plans and now imports all of its footwear).

If S. 504 were to be passed in its present form, the Caribbean Basin would be entitled to export to this country in excess of eight million pairs of rubber footwear duty-free, in contrast to the fully dutied one million pairs they exported last year. This would be an open invitation to American producers to fire employees, to close domestic plants and to shift their assets to the Caribbean; indeed, some domestic manufacturers have contingency plans to do just that. It would mean a decline in domestic production of almost 10% on top of the devastating decline which has occurred over the past two decades. The amendment to the CBI proposed by the Administration and accepted by the Ways and Means Committee in 1989, which would have reduced duties on rubber footwear from the Caribbean by 50%, would have hid at least as drastic an impact on the domestic industry as would be true of the amendment proposed in S. 504.

The rubber footwear industry is gravely concerned about the damage that could be done to it in the Uruguay Round. At the very least, we urge that any consideration of preferential duty treatment for the Caribbean be set aside until there is an assessment of the results of that Round.

APPENDIX I

SHOES WITH RUBBER OR PLASTIC SOLES/FABRIC UPPERS (SIC 30210 10)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1988	79,500	900	158,000	236,000	67.0
1987	70,400	800	119,500	189,100	63.0
1986	57,900	1,000	99,000	155,900	66.0
1985	60,778	808	84,761	146,941	57.7
1984	64,516	1,120	107,685	171,865	62.7
1983	78,054	1,203	102,662	180,019	57.0
1982	92,896	1,367	99,032	194,398	50.9
1981	95,399	1,564	137,632	231,003	59.6
1980	97,516	1,694	120,746	216,207	55.8
1979	78,130	1,223	111,390	193,381	57.6
1978	79,278	644	172,700	253,683	68.1
1977	90,417	800	106,000	196,587	53.9
1976	115,354	700	115,400	234,471	49.2
1975	131,155	600	74,100	206,376	35.9
1974	146,500	1,010	67,352	210,838	31.9
1973	143,077	29	66,291	214,837	30.9
1972	159,399	105	58,020	217,314	26.7
1971	156,489	112	62,872	219,249	28.7
1970	144,276	129	49,726	193,873	25.6
1969	142,295	195	44,463	186,563	23.8
1968	152,257	239	49,200	201,218	24.5
1967	153,656	211	44,659	198,104	22.5
1966	157,491	167	35,060	192,384	18.2
1965	165,741	195	33,363	198,909	16.8
1964	162,151	225	29,063	190,989	15.2

Source: Compiled from official statistics of the U.S. Department of Commerce

APPENDIX II

RUBBER & PLASTIC PROTECTIVE FOOTWEAR (SIC 30210 20)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1988	15,300	700	9,000	24,000	38.0
1987	12,000	800	9,600	20,800	46.0
1986	14,300	542	10,700	24,000	45.0
1985	16,500	392	12,846	28,900	44.0
1984	17,734	296	16,010	32,830	48.8
1983	15,459	305	13,373	26,562	50.3
1982	13,920	386	11,103	24,611	45.1
1981	10,652	551	7,485	18,028	41.5
1980	14,173	653	7,518	21,552	35.0
1979	23,531	645	12,[illegible]44	36,517	34.[illegible]
1978	28,893	514	13,[illegible]44	36,130	37.[illegible]
1977	23,380	400	10,[illegible]00	34,402	31.1
1976	17,261	400	9,6[illegible]0	26,800	35.8
1975	16,135	300	4,100	20,600	19.9

Source: Compiled from official statistics of the U.S. Department of Commerce

APPENDIX III

PRODUCTION EMPLOYMENT
(in thousands)

RUBBER AND PLASTIC FOOTWEAR

1973	26.3
1974	25.3
1975	22.3
1976	21.6
1977	20.9
1978	21.0
1979	19.9
[illegible]	19.8
[illegible]	19.0
[illegible]	16.2
[illegible]	14.1
1984	14.0
[illegible]	10.9
[illegible]	9.2
[illegible]	9.4
[illegible]	9.7

	1988	1989
January	9.8	9.0
February	10.1	9.1
March	10.2	9.1
April	10.1	9.0
May	10.2	8.9
June	9.9	9.0
July	9.0	8.7
August	9.5	8.2
September	9.3	9.3
October	9.3	9.4*
November	9.3	
December	9.2	

(*: preliminary figure)

Source: Bureau of Labor Statistics, U.S. Department of Labor

APPENDIX IV

Flow: Imports for consumption
Type: First unit of quantity
TSUSA commodity: Total selected commodities
(Pairs)

Partner \ Time period	1984	1985	1986	1987	1988
Argentina	0	2,160	2,262	3,960	10,000
Australia	10,684	9,403	249	507	13,384
Austria	4,313	4,051	4,324	700	487
Belgium	0	0	0	0	44
Belgium and Luxembourg	120	2,069	11,824	6,376	0
Botswana	0	0	0	0	1,390
Brazil	131,232	121,858	122,789	352,472	303,296
Cameroon	0	140,574	0	0	5,382
Canada	155,930	180,034	245,270	646,287	555,377
Chile	0	1,152	720	0	0
China	14,803,913	15,798,265	24,653,400	32,835,135	63,638,693
Colombia	4,163	30,745	86,950	57,231	165,515
Czechoslovakia	57,360	211,336	2,226	180	456
Denmark	1,594	100	150	0	9
Dominican Republic	48,787	20,102	24,060	1,082,587	512,680
Ecuador	433	0	0	0	0
El Salvador	0	0	0	87,359	153,383
Fiji	0	60	0	0	0
Finland	0	0	0	24,915	14,580
France	11,849	14,871	12,566	165,419	149,979
Germany, West	238,526	282,667	213,864	60,674	51,619
Greece	55,984	54,340	84,072	0	815
Guatemala	0	0	144	0	0
Haiti	46	0	0	306,328	295,399
Hong Kong	350,747	705,212	667,450	3,538,398	5,537,777
Hungary	4,053,215	5,049,611	5,095,736	0	0
Iceland	2,580	0	0	900	0
India	0	0	0	0	1,080
Indonesia	3,918	3,380	200	0	214,194
Iran	4,752	1,440	1,588	6,120	0
Ireland	3,096	0	0	792	41
Israel	41	16,555	15,763	440	173,345
Italy	28,333	58,099	335,465	153,370	200,613
Ivory Coast	1,061,314	567,881	515,374	278,765	27,000
Jamaica	0	0	39,852	0	124
Japan	0	0	0	0	216,038
Kenya	1,341,230	938,811	625,682	241,091	325
Kiribati (Gilbert Isl)	4,260	59,325	4,608	44,294	0
Korea, South	0	0	1,212	0	44,626,457
Lebanon	39,845,613	26,615,123	25,610,227	39,053,204	4,856
Macao	0	0	889	2,329	0
Malaysia	0	0	5,656	4,230	

Note: Compiled from official statistics of the U.S. Department of Commerce.

Flow: Imports for consumption
Type: First unit of quantity
TSUSA commodity: Total selected commodities
(Pairs)

Partner \ Time period	1984	1985	1986	1987	1988
Malaysia	63,695	91,907	234,202	528,195	278,609
Malta and Gozo	0	0	0	0	8,508
Mauritius	0	0	0	0	7,500
Mexico	16,281,021	19,394,208	23,671,103	24,062,149	25,589,417
Monaco	0	0	0	0	29,140
Montserrat	0	0	0	28,672	0
Morocco	0	0	0	0	57
Mozambique	0	10,170	0	27,398	0
Neth Antilles	216	0	0	216	48
Netherlands	62,753	62,143	92,384	57,998	32,760
New Caledonia	0	45,396	0	0	0
New Zealand	92	1,077	50	48	56
Norway	384	1,224	3,698	710	1,510
Pakistan	0	460	16,490	446	72
Panama	0	2,328	2,222	79	0
Peru	0	0	0	0	640
Philippines	574,954	722,609	614,660	548,874	506,103
Pitcairn Island	0	0	12,834	0	0
Poland	0	0	1,064	0	125
Portugal	2,066	14,538	47,287	127,819	39,198
Republic of South Africa	88,929	117,712	63,528	14,355	525
Romania	1,130	300	36	48	0
Singapore	6,586	13,058	46,536	33,624	2,682
Spain	632,735	839,613	1,319,376	939,158	756,050
Sri Lanka (Ceylon)	606,030	465,238	739,961	1,116,912	1,202,774
St Christopher-Nevis	5,000	0	0	0	0
St Lucia	0	4,585	6,073	6,108	2,808
Sweden	8,168	5,714	732	1,131	786
Switzerland	1,028	79,249	165,093	181,775	105,426
Syria	0	0	0	102	0
Taiwan	41,743,160	23,854,547	23,395,485	20,695,010	16,517,331
Tanzania	0	972	0	0	0
Thailand	1,028,654	820,503	659,080	1,415,429	3,986,079
Tunisia	0	0	4,842	4,500	0
Turkey	0	0	3,271	3,355	14,604
United Kingdom	85,844	287,637	260,533	160,589	182,183
Venezuela	168,112	30,569	28,592	64,372	23,574
Yugoslavia	110,858	151,972	50,870	174,829	450,280
World	123,695,448	97,606,953	109,824,574	129,148,464	166,613,185

Note: Compiled from official statistics of the U.S. Department of Commerce.

PREPARED STATEMENT OF WILLIAM J. CUNNINGHAM

Mr. Chairman, the AFL-CIO appreciates the opportunity to present its views on the CBI extension legislation. Since the Subcommittee is reviewing all CBI proposals we have provided comments on provisions that are included in the House version, as well as those in the Senate bill (S. 504) sponsored by Sen. Graham (FL).

As the subcommittee knows, the AFL-CIO has not supported CBI trade legislation in the past. This should not be construed as lack of support for the CBI nations and their people. Indeed, the AFL-CIO has been extensively involved in helping Caribbean workers develop their skills and sound structures as the best way to insure that any economic development will benefit all the people within those countries.

There are; further reasons why the AFL-CIO does not support CBI. Generally, specific trade legislation is designed (almost exclusively) to provide access to the U.S. market. Usually such legislation affects specific products and the U.S. workers who have already felt the impact of foreign imports.

A trade-based foreign policy (required because of U.S. budget deficit) is treated as "free" because it has no direct budget impact. This view of "free" foreign policy ignores the economic impact of the trade deficit and its affect on important production sectors of our economy. A recent article in the Wall Street Journal illustrates this view. The article reports the Bush Administration is cutting back on foreign aid to the CBI and Central America, yet the same Administration heralds CBI trade legislation as important. To further compound the problem, for U.S. workers such U.S. trade adjustment mechanisms, i.e., job training or TAA, are often ineffective or underfunded.

Further, U.S. trade legislation in the third world is usually done at the expense of the local workers in the CBI nations. The opposition of multinational corporations to the aggressive implementation of workers rights in foreign nations is one indication of this situation.

In addition, proponents of the CBI argue that the increased CBI trade activity has actually helped the CBI. The data generated by the House Ways and Means Oversight Committee cast serious doubts about the effectiveness of the CBI legislation. By our calculations CBI exports to the United States have dropped by 22%, in large measure because of declining value in sugar and petroleum. Let me explain in more detail our concern with a trade-based foreign policy and its problems. It is increasingly clear that reliance on export-led growth strategies, not only has failed to promote equitable economic development in the developing countries, but has also served to seriously harm American workers, whose jobs have been displaced by an ever increasing volume of imports. These imports also exacerbate America's trade crisis. This concern undermines the argument of those who see export growth directed at the U.S. market, as the panacea for economic hardship in the less-developed countries of Latin America and the Caribbean. Indeed, the U.S. already absorbs more than half of the manufactured exports from less developed countries (LDCs) worldwide. By contrast, the European Community with a population larger than the U.S. takes less than a fourth of the total, and Japan a meager 9 percent. I point this out to demonstrate that the U.S. is already more than fulfilling its responsibility, as a recipient of goods from the LDCs, and under present circumstances, cannot reasonably be expected to do any more. Clearly, other policy options need to be explored if the economic and social problems in Latin America and the Caribbean are to be effectively addressed. The AFL-CIO believes that in order for progress to be made on these problems, principal attention should be directed at policies and programs in both the U.S. and the LDCs in the following areas:

- current emphasis on export-led growth strategies should be redirected to stress internal market development;
- greater resources must be devoted to direct development assistance programs for these countries;
- existing programs to assist in the development of local institutions, like trade unions, must be enlarged so that ordinary people will find it possible to participate fully in the political and economic life of their nation.
- Any trade investment program for the Caribbean must include appropriate safeguards for American workers.

EXPORT-LED GROWTH

As you are aware, considerable theoretical and political support has been developed for the concept that export-led development could bring agrarian countries of the Third World into partnership with the industrialized nations, thereby promoting economic growth. It has been stressed that export-led, labor-intensive industrial development would lead to the accumulation of capital in a foreign country. This cap-

ital, in turn, would be used for investment in economic development, leading to reductions in the typically high levels of unemployment that prevail in these underdeveloped areas. The principal advantage a country has in securing these kind of production facilities is a lower cost structure than similar operations in either an industrialized country or, as in so many cases, some other developing area.

Export-led development frequently means the isolation of the export industry from the national economy. All too frequently it results in the denial to the producing country's economy of a fair share of the profits of the enterprise. The chief beneficiaries of such activities are generally a small number of elite individuals who provide capital to these businesses and, of course, the parent (multinational) company which enjoys huge profits at home, based on the low cost of the foreign-assembled product.

Instead of providing funds for further development, an export industry of foreign investors often works in reverse. The parent firm usually provides only initial capital which it quickly repatriates. Other capital is borrowed in the host country and drained from local development projects. Instead of serving to reduce chronic high levels of unemployment, the export factory generally employs young female workers who represent new additions to the labor force rather than a return to work of those who have been idled. And finally, in an export-led strategy, the worker is viewed primarily as a factor of production. Wages are kept low to encourage continued export industry growth and little or no development of a mass consumer market occurs. The principal growth in consumer goods consumption that takes place in such areas is via the production or import of luxury goods for the handful of elite who operate the factories or profit from them.

If these export industries in much of the less developed world had been patterned after the historical experience of the U.S., matters might have been different. In our economy, production for exports is fully integrated. Manufacturing is accomplished by the same workers, in the same plants, and under the same laws as those governing production for domestic markets. And perhaps most important, in the U.S., the worker is viewed as both producer and consumer, and wages earned in one capacity serve to stimulate mass demand for goods and services. This is unfortunately not the case in the vast majority of third world operations including the CBI.

DEVELOPMENT ASSISTANCE

Another attraction to export-led growth programs is they are perceived by many in the United States as being costless, and thus superior to direct transfers of resources through foreign aid. We all have repeatedly heard the adage that trade is better than aid. Unfortunately, this is not always the case. All too frequently, there is a cost associated with trade, and it is disproportionally borne by those who can least afford it—American workers, whose jobs have been eliminated by imports. While this cost does not appear directly on a nation's budget sheet, it is no less real, and may in the end, prove more expensive than direct budget outlays. If the U.S. believes, as does the AFL-CIO, that it is in our interest to promote the development of our neighbors, the cost of any assistance should equitably be shared by all segments of our society. Appropriate increases in direct foreign assistance would help accomplish that goal.

INSTITUTION BUILDING

Finally, the AFL-CIO believes that the promotion of democratic pluralism, institution building if you will, should be central to any development strategy. We have always argued that where free institutions exist, including trade unions, the political liberalization that allows them to function will pave the way for economic progress. No one questions the fact that growth and the creation of wealth continue to be vital to the development process. But these factors cannot, by themselves, create development. If one were to actively seek the demise of the development process, one would need only to create wealth and not provide for a socially just distribution of that wealth. We firmly believe that wealth cannot be equitably distributed to the workers and farmers who helped create it except through the process of collective bargaining with strong, independent trade unions representing the workers' interest. Emphasis on the development of democratic institutions and pluralistic society is entirely consistent with economic growth. In fact, it is an integral part of that process. Recent activities of the American Institute for Free Labor Development shows how this activity can be done and is being done through project such as:

- Financing worker-owned service stations in Grenada;
- Building union headquarters building on seven different islands;

• Providing agricultural equipment for producers cooperatives;
• Supplying tools for workers' construction cooperatives and vocational training schools.

SAFEGUARDS

We have made these arguments in the past and they are still valid, however, the AFL-CIO realizes the desire on the part of the Congress and the Administration to "do something" in the CBI. In this case I would urge the Committee to be guided by a central provision in the Hippocratic oath—"First Do No Harm."

The original CBI legislation excluded certain import—sensitive products from CBI. The AFL-CIO believes the "exempt products list" should continue in the new CBI legislation. These domestic products include: apparel, textile, shoes, leather products, tuna, petroleum and others. The industries which manufacture these products have continued to suffer from dramatic increase of imports and the American workers have lost their jobs as a result. At a minimum the exempt list should be retained.

DUTY FREE TREATMENT FOR APPAREL AND TEXTILES

The AFL-CIO worked diligently when the House Ways and Means Trade Subcommittee voted to provide a duty free treatment for apparel made from U.S. cloth in its version of the CBI extension. We opposed this provision for the following reasons:

• The negative impact on U.S. workers from an increase in imports from CBI continues, compounded by trans-shipment from non-CBI nations in order to get duty free and quota free treatment.
• In addition, we were concerned that these benefits would be extended to other countries. For example, the Reagan Administration used the procedure of "special regimes" to deem Mexico eligible for the same benefits as those provided by law to CBI nations. Our fear is that any future CBI benefits "will be given" to Mexico automatically. *The Committee should be aware that when it is legislating for the CBI, it is potentially legislating the same treatment for Mexico, and perhaps other Latin American nations.*

We oppose the House Ways and Means provision which provided for duty free treatment of apparel made from U.S. cloth. During that Committee's consideration of the proposal last year, we worked on a counter proposal with Cong. Jenkins that would have "offset" any increase on CBI apparel imports by requiring a reduction in MFA quota in other areas of the world. The Jenkins amendment was narrowly defeated in the Committee but the Ways and Means Committee asked that the original apparel provision be removed before the bill was considered by the full House. I am enclosing a memo that describes our concerns in this area. (attachment A)

DUTY FREE ACCESS FOR PRODUCTS MADE WITH U.S. COMPONENTS

The AFL-CIO has severe concerns about unlimited access and duty free treatment for articles manufactured, assembled and processed from materials of 100% U.S. origin. The AFL-CIO is concerned that this loophole, which eliminates the existing import quotas and eliminates duty, will provide a means to increase the importation of import-sensitive products. For example, it is not far fetched to believe that a manufacturer could send raw cotton to the Caribbean which could be made into duty free apparel coming back to the U.S. that is not subject to MFA quota. Further the ability of U.S. customs to monitor and enforce this program is suspect. Therefore the problem of trans-shipment and substitution of foreign made components is a legitimate concern.

MODIFICATIONS OF U.S. TRADE REMEDIES FOR CBI

The AFL-CIO also opposes any modification to existing U.S. subsidy and anti-dumping law. It makes no sense to weaken statutes that are designed to protect U.S. industry from unfair and illegal trading practices. The injury standard is already weak enough without adding a geographic requirement that would dilute it further.

DUTY FREE TREATMENT FOR LEATHER PRODUCTS

The House bill removes leather products from the exempt list. The AFL-CIO can find no justification to allow leather flat goods to come in duty and quota free under CBI. It is true that the leather industry is small, but for the workers in that industry a dramatic increase in leather goods will decimate their jobs.

CONCLUSION

Mr. Chairman, the AFL-CIO believes that U.S. emphasis and support for CBI export programs will do little to help those nations and will harm U.S. workers. An activity, like the CBI, that serves to separate the people of two nations into low cost producers on the one hand and consumers on the other is eventually doomed to fail. People need to both work and consume, and U.S. efforts should be directed to that end. As outlined earlier, we believe there are a variety of measures—internal market development, increases in direct foreign assistance, and institution building—that could be pursued to begin to address this pressing problems. We stand ready to work with you in your efforts to find solutions that are effective and acceptable to all parties concerned.

[Attachment A]

VIEWS OF THE ILGWU AND ACTWU CONCERNING THE PROPOSED CBI LEGISLATION

Our major concern with this proposed legislation centers on two provisions. One would change item 807.00 for CBI countries to eliminate the duty and import quotas for products made completely of U.S. components. The other, would eliminate the duty on leather products through the establishment of a tariff-rate quota.

Concerning the proposed changes to item 807.00, the enactment of this provision would be detrimental to the domestic apparel industry. Under current law, imports of apparel from CBI countries have risen dramatically (23% per year, 1980-87) while U.S. employment in this industry has fallen.

By legislating open access to the U.S. market for apparel, access that previously was provided only through an executive order and the Special Regime created for Mexico, imports will be further encouraged. The forgiveness of duty on the value added abroad will also have this effect and will represent a revenue loss.

If the Congress and the Administration believe that it is necessary to provide special benefits to the Caribbean and Mexico, we suggest that the proposed legislation be amended to require the current quotas in force concerning apparel trade with the four Asian NIC's, be reduced by 6% in order to compensate for increased imports (20%) from the Caribbean and Mexico. We note that agreements with two of the four nations in question expire this year, and that the others have provisions that permit renegotiation. The required initial 6% reduction may be amended annually based on actual trade in apparel with the CBI countries and Mexico.

Concerning leather goods, imports from CBI countries have increased on an average of 13% per year from 1980 to 1987. U.S. employment has been cut almost in half during this same period. The elimination of duties for current import levels plus 3% a year increases would only accelerate this trend. We urge that this proposal be rejected and current duty levels maintained.

The effective implementation of any trade regime with the Caribbean requires increased resources for the Customs Service, stricter controls on matters such as origin of materials and value added in the beneficiary country, and more stringent penalties for fraud. We believe that these elements should be included in any legislation.

PREPARED STATEMENT OF SENATOR BOB GRAHAM '

Mr. Chairman: I am pleased to have the opportunity to testify today in support of S. 504, legislation enhancing the Caribbean Basin Initiative.

I particularly appreciate the willingness and commitment of this subcommittee to act on this legislation so early in the year. I hope that we can send the President a piece of legislation to sign in the near future.

Before I begin my testimony, I would like to introduce to the committee Ambassador Edward A. Laing of Belize. Abassador Laing is here today representing the region.

The ambassador has indicated that he would welcome the opportunity to answer any questions committee members might direct to him during the hearing.

He also has submitted testimony for the record which I highly recommend to the members and their staff. His written comments address very directly why this legislation is in the interests of both ourselves and our friends in the Caribbean.

Mr. Chairman, CBI is very much about mutual interests between friends and the importance of the Caribbean Basin to the United States.

At a time when revolutionary change is sweeping the Soviet Union and Eastern Europe, it is all too easy to lose sight of those facts. what is happening across the

Atlantic is of course extremely important. But so too is what is happening in our own hemisphere.

I am very concerned that the Bush Administration is losing sight of that. I agree with our colleague Dick Lugar that we are facing a crisis not of U.S. intervention, but of U.S. inattention.

U.S. economic assistance to the Caribbean Basin has fallen 22.2 percent this year. Economic Support Funds have been zeroed out for every country in the Caribbean but Jamaica and Guyana.

This at a time when we are asking our friends in the region to wage an expensive fight against narcotics. And when we are asking them to make painful but necessary economic reforms.

Mr. Chairman, it doesn't make sense. At great cost, we have made real progress in the last 10 years in promoting democratic pluralism in the region.

In the last two years, there has been a veritable election binge unprecedented in the Basin's modern history. In 1989, elections were held in Belize, El Salvador, Honduras, Antigua, Jamaica, St. Kitts, and St. Vincent.

Costa Rica already has had an election this year. Others are scheduled for Nicaragua, Guatemala, the Dominican Republic, Grenada, Dominica and possibly Guyana.

This is not the time to be distracted, or to walk away. It is a time to consolidate and build on our gains.

To be fair toward the Administration, I should point out that it is bringing a new commitment of support for enhancement legislation this year. But that commitment will have to remain strong, unwavering and at a high level if we are to successfully pass legislation.

Mr. Chairman, I know other witnesses today will discuss the various proposals to enhance CBI. And I know time is very limited. I would, however, like to make three general comments.

First, in S. 504 we address any future uncertainty about the availability of duty-free treatment by making the program permanent. This is essential if we are to maintain the investment confidence we have worked so hard to build.

Second, we try to deal reasonably with the sticky problem of of sensitive items such as textiles, leather goods, and petroleum which were excluded under the original CBI passed in 1983. We also address the issue of cummulation in trade injury cases.

Finally, we tackle sugar, which by everyone's reckoning is key as countries try to diversify into other agricultural and manufacturing products. We establish a minimum quota floor so that our friends in the region can count on a certain export market.

Mr. Chairman, you are aware that the House passed CBI enhancement as part of last year's reconciliation bill. Although it was later dropped by the Senate, it contained several provisions not in S. 504 that I believe the Committee should consider.

The House language promotes scholarship assistance based on legislation I originally introduced in the Senate in 1987. It also speaks to the importance of tourism to the economic well-being of the region and establishes a customs preclearance program. And finally, it contains a compromise on ethanol that I believe we can all live with and that I hope will be made permanent.

Mr. Chairman, thank you again for holding this hearing. I look forward to working with you on moving CBI enhancement legislation this year.

PREPARED STATEMENT OF JAMES J. HARTMAN

I appear today on behalf of the Footwear Distributors and Retailers of America, which represents some 20,000 retail chain stores nationwide, and the footwear distributors that service them. Our association accounts for more than half of all retail shoe sales in America and the bulk of all imported footwear. I am accompanied by Peter T. Mangione, our counsel from BRA.

FDRA urges the adoption of a 50% duty reduction on non-leather footwear imported from the Caribbean basin countries for the following reasons:

1. The duty reduction would offer U.S. consumers substantial savings, particularly for rubber/fabric footwear where shoe duties are as high as 67%.

2. Giving Caribbean countries this duty advantage would result in the shift of shoe imports of these products from Asian producers to Caribbean countries and would not result in additional shoe imports.

3. The duty reduction will not result in the loss of U.S. shoe manufacturing jobs, because imports—despite high U.S. duties—are already much cheaper than U.S. made products.

To illustrate why we believe that the duty reduction will not result in additional imports or harm U.S. production, we have brought samples of U.S. and imported products.

We have the Converse, Chuck Taylor All Star, which retails for about $28. A comparable imported product, the Kinney, Stadia, retails for about $18 and is imported. Thus, despite the huge, 67.5% on these sneakers, the imported product is today some $10 cheaper at retail. The U.S. product is successful in the marketplace because of its brand name. It does not compete, on a price basis, with the much cheaper import. Since the two products do not compete presently, a reduction in the import price, through a duty preference, will not affect their competitive positions.

This distinction between name brand marketing and price or value marketing is extremely important in consumer terms. A 67.5% duty on low-priced sneakers is an unconscionable burden with which to saddle struggling American families. This burden—a last vestige of smoot Hawley—is especially tragic given that the high tariff is not needed to protect U.S. production.

At the lowest end of the price scale of rubber/fabric shoes are large volumes of shoes produced in China. These are handmade styles that retail for under $10; we have samples that retail for $5 and $7 respectively. There is no U.S. production of these products. Yet, the duty is 48%!!

The U.S. made rubber/fabric shoes that retail under $10 are different. They are machine made, and only come in limited styles, due to the heavy bottoms required by the production process.

Also, since these are machine made, they require little labor. Since the advantage of Caribbean production would be low labor costs, the bill creates no incentive for U.S. producers to shift low labor, machine operation to the region.

The labor intensive component of a shoe, the upper, is already made in the Caribbean in large quantities with the shoe completed in the U.S. with little labor input. This would continue under the bill especially since the bill's textile provisions would eliminate the 11.2% duty presently applied to these imported uppers.

The 50% duty reduction on footwear from CBI countries would be of enormous help to the struggling Caribbean nations—creating new jobs. The new jobs created by the duty preference would replace ones in Asia, not U.S. employment.

American consumers, particularly low income families who shop at mass merchandisers and discount stores would have the enormous burden of 67% duties reduced by half.

U.S. producers would be unaffected, since their products are marketed on a different basis today. I might also add that even with the 50% duty reduction, most rubber/canvas shoes would still be subject to a duty of about 33%, which is more than six times the average rate of duty—about 5% collected on manufactured imports generally.

I would be pleased to answer any questions you may have. Thank you.

RESULTS OF A 50% REDUCTION IN ALL FOOTWEAR DUTIES

The following table lists the current tariffs on major footwear categories and indicates what those tariffs would be following a 50% tariff reduction:

Footwear Type	Current Duty Ad Valorem %	Ad Valorem Duty Reduced by 50%
Rubber/canvas $3.01/$6.50 FOB	67.4 (37.5% plus $.90)	33.7
Rubber/canvas up to $3.00 FOB	48.0	24.0
Rubber/canvas $6.51/$12.00 FOB	33.8 (20% plus $.90)	17.0
Rubber/canvas over $12.00 FOB	20.0	10.0
Protective Footwear	37.5	18.75
Fabric/Leather athletics	10.5	5.25
Leather	8.5/10.0	4.25/5.0
Plastic	6.0	3.0

FDRA MEMBERSHIP

RETAILERS

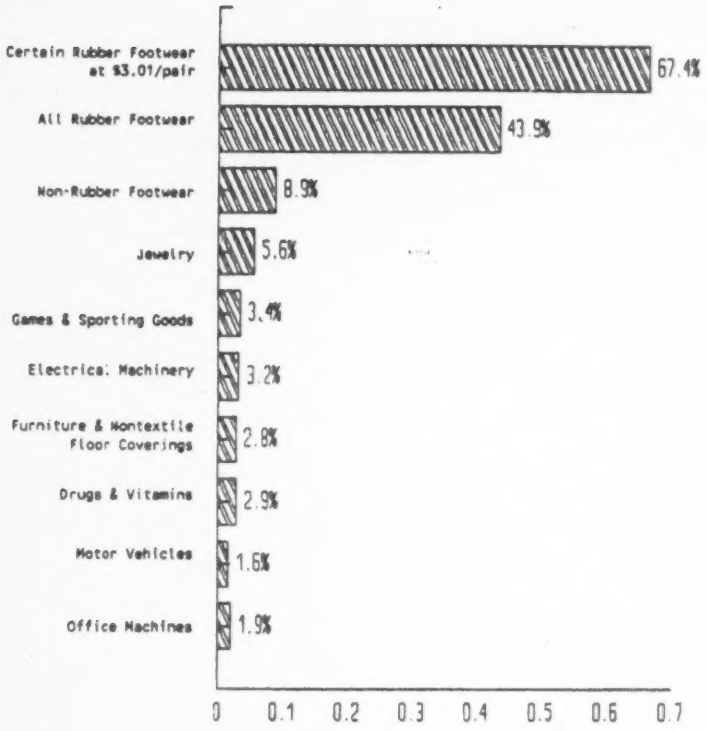
Bata Shoe Company
Edison Brothers Stores
Kinney Shoe Corporation
Melville Corporation
J.C. Penney Co., Inc.
Sears, Roebuck & Co.
Shonac Corporation
Tradehome Shoe Stores
Weiner Enterprises
The Butler Group Inc.
Endicott-Johnson Corp.
The Kobacker Company
Morse Shoe, Inc.
Pic 'n Pay Stores
Shoe City, Inc.
Standard Shoe Company
Volume Shoe Corp.
Fisher Camuto, Inc.
C&J Clark America, Inc.
Genesco, Inc.
Meldisco
J. Baker, Inc.
J.S. Raub Shoe Corp.
Shoe Town, Inc.
Thom McAn Shoe Company
Wal-Mart Shoe Division

DISTRIBUTORS

Elan-Polo, Inc.
Cypress Enterprises, Inc.
Pagoda Trading Co., Inc.
Olem Shoe Corporation
Pallmark Int'l./Cherokee Shoe Co.
International Seaway Trading
Millfeld Trading Company, Inc.
Trade Winds Importing Co.
Lee International Ltd.
Angle-etts of California, Inc.
Circle S. Boot & Shoe
Dynasty Footwear
Leif J. Ostberg, Inc.
Topline Imports, Inc.
B. Levy and Son
Mercury International
BBC International
Marquesa International
C.O. Lynch Enterprises
Sanshoe Trading Company
Bright Star Products
Reebok International
MSF Corporation
L.A. Gear
Footwear Express
Shoe Visions
E.S. Originals
Cels Enterprises
Sebastian Imports
Grand Imports
P.W. Minor & Son
Desa Shoe Company
Inter Pacific Corp.
Daytona, Inc.

Average U.S. Tariff Rates -- 1988

Footwear & Other Specific Products



Source: USITC, "Value of U.S. Imports for Consumption, Duties Collected and Ratio of Duties to Values," March 1989.

PREPARED STATEMENT OF CARLA A. HILLS

Chairman, thank you for the opportunity to present the administration's comments on the Caribbean Basin Economic Recovery Expansion act of 1989, knob as the Caribbean Basin Initiative II (CBI II).

Senate consideration of this legislation comes at a time of dramatic and rapid changes in the world. The benefits of democracy and free markets are now recognized in countries that were stifled by central control when I last testified on CBI II before the House in April 1989. Our attention has been largely focussed on Eastern Europe where events continue to unfold. while these developments are cause for celebration, we must not become so transfixed by Eastern Europe that we forget our neighbors next door.

The people of Panama are once again free to pursue their own destiny. We are acting as quickly as possible to help get Panama's economy back on its feet. Expanding benefits under the CBI will greatly assist our effort.

As President Bush noted in November 1989, our friends and neighbors in Central America and the Caribbean are in "an area of major strategic importance to the United States. This Nation's security and prosperity depend in large measure on continued progress toward democracy and economic development in that region."

Because of the region's importance, the administration is embarked on a renewed effort to enhance the effectiveness of the existing program. President Bush recently asked me to coordinate an interagency task force that would identify and implement those act ions that can be undertaken by the administration to ensure the CBI achieves its goals as fully and as effectively as possible. That effort is well underway.

We are now looking to the Congress for additional improvements to the CBI. The bipartisan support given by Congress to the Caribbean Basin Initiative (CBI) since its inception has greatly helped our efforts to promote the development of widespread free enterprise in the region and to enhance the benefits countries in the region can derive from it. More can and should be done. Continuing this bipartisan tradition offers the best chance of passing balanced legislation that meets the major needs of the region while minimizing any negative impact on U.S. producers and workers.

It is critically important that Congress act quickly on CBI legislation. An integral part of the overall goals of the CBI is to attract new investment to the region. There is clear evidence that significant investment has appeared in the region since the program began in 1984. We must ensure that this momentum is maintained.

A major attraction for investors would be assurance that the program will remain in existence well beyond its current expiration date of September 30, 1995. The earlier we can provide this guarantee, the sooner investors who may be considering various foreign locations will be able to factor in the benefits of a stable and permanent CBI program. The year 1995 may seem a long way off, but it is quite soon to an entrepreneur considering investing millions of dollars of his private capital. With an increasing number of countries seeking to attract foreign investment, we cannot afford to wait. We need the security that new CBI legislation would bring as a significant selling point for investors to see the Caribbean Basin as a preferred location.

ECONOMIC TRENDS

Before I turn to provisions of the legislation, let me briefly review the recent trends in the region. I will highlight areas in which the CBI has been successful and demonstrate further the advantages of quick passage of new CBI enhancement legislation.

From 1983 (the year before the CBI went into effect) to 1988, total U.S. imports from CBI beneficiaries fell progressively—from $8.8 billion to $6.1 billion. This trend was due largely to decreases in our imports of petroleum and petroleum products, which fell from approximately $5 billion in 1983 to about $1 billion in 1988. Although just three beneficiary countries (Trinidad and Tobago, the Netherlands Antilles, and the Bahamas) were directly affected by this change, the overall impact on the region's trade appears large.

Focussing on the total value of U.S. imports from the region overlooks some real and positive changes that are taking place in the composition of exports. Although traditional products such as petroleum, coffee, sugar, bananas, cocoa, and bauxite continue to weigh heavily in CBI countries' exports, efforts to diversify have diminished their relative importance. The share of petroleum and petroleum products alone has fallen substantially—from about half of U.S. imports from the region in

1983 to 17 percent in 1988, as the value of U.S. imports of non-petroleum products rose by over 30 percent during this period.

The composition of our imports from the Caribbean Basin has shifted to a variety of products. The most significant gain was in textiles and apparel, consisting mainly of garments. Among the other non-traditional products exhibiting strong growth were shellfish, electrical articles, fruit and winter vegetables.

From 1983 to 1988, U.S. imports of non-traditional products from the region have grown by over 75 percent. During the first nine months of 1989, U.S. imports of non-traditional products rose by 28 percent, compared to the same period in 1988. The Caribbean Basin's non-traditional exports to the United States have been increasing so fast that for the first time in 1988 they exceeded the value of traditional exports, compared to representing under one-quarter of our total imports from the region in 1983.

However, growth in the region has been uneven. Some countries have shown great progress in diversifying their economies and assisting private business take advantage of the CBI program. For example, Jamaica's non-traditional exports have grown by 154 percent since the CBI began; Costa Rica's by 259 percent; the Dominican Republic's by 202 percent. Other countries have not done as well. The CBI, of course, does not guarantee economic growth but offers beneficiary countries opportunities for achieving such growth.

While the CBI is intended to provide nonreciprocal trade benefits to the Caribbean Basin, the United States has also gained from the trading relationship. U.S. exports to the region have grown from $5.9 billion in 1983 to almost $7.7 billion in 1988. We ran a trade surplus with the region of about $1.4 billion in 1988—up from under $630 million in 1987 and a slight deficit in 1986.

Overall, we find the trends very encouraging. They offer concrete evidence that the CBI is making progress in helping economies in the region diversify and achieve self-sustaining growth. and this development is taking place while our own trade balance with the region improves.

ADMINISTRATION'S VIEWS ON LEGISLATION

Objectives

This part of my statement provides the administration's position on key provisions of new CBI legislation. Because you have two versions under consideration—H.R. 3299 and S. 504 both of which offer welcome improvements in the CBI program—will address in general terms our views on CBI enhancement rather than going into a section by section review.

New CBI legislation should accomplish at least two basic and very important objectives:

- extend the life of the CBI program, placing it on a permanent basis;
- offer CBI beneficiaries some increase in export opportunities to the U.S. market by liberalizing and securing access for an expanded range of products.

Now let me turn to some of the provisions being proposed to improve the operation of the CBI program.

Extension of the Program

We strongly support extension of the program in the manner provided in both H.R. 3299 and S. 504. Repealing the 1995 termination date emphasizes to potential investors that the United States considers the Caribbean Basin's long-term economic development and security to be a high priority.

Reports by the administration on the performance of the program at three-year intervals provide an opportunity for the Congress and the Executive Branch to evaluate how well the program is achieving its objectives and to determine whether any improvements are warranted. We believe that a complete report should include a review of all of the criteria to be used by the President when designating any country for beneficiary status. A separate biennial review should not be required—as proposed in H.R. 3299—if we are going to ensure investors of the long-term security of the program. A report to Congress every three years is a reasonable and responsible approach that builds on the bipartisan support which the Congress has given the CBI program from its start.

Sugar

Before returning to the many positive features of CBI enhancement legislation, we must repeat our opposition to the provisions in both bills that would grant a minimum access for CBI beneficiaries to the U.S. sugar market and would reallocate shortfalls to the Caribbean Basin. We are sympathetic to the objectives the

sponsors of these provisions are attempting to achieve. However, these provisions would violate article XIII of the GATT. also, in an attempt to help the Caribbean Basin, these provisions would violate the terms of our GATT waiver—that we would not implement our sugar quota in a discriminatory fashion—thereby jeopardizing the CBI program. In addition, they could establish an unfortunate precedent that might lead to the preferential allocation of other quotas in the future and could be used by other countries to the detriment of U.S. exports. The administration cannot support a bill that contains the sugar provision.

We continue to prefer a comprehensive reform of the U.S. sugar program. We expect expanded world-wide opportunities for Caribbean sugar producers to be accomplished as part of the Uruguay Round negotiations.

Market access

One key objective of new CBI legislation is to increase access to our market for an expanded range of products. Enhancing trade benefits for countries in the region improves growth, mitigates the need for aid, and raises our own exports. The help we offer these countries through CBI is clearly a wise investment in our own, as well as their, future.

In our desire to improve the region's access to our market we cannot ignore the legitimate interests of our domestic producers and workers. We need to strike a balance between the enhanced benefits we provide the Caribbean Basin and the potential costs imposed on especially sensitive sectors of our economy.

However, we regret that certain provisions on textiles/apparel and footwear were not passed by the House. We believe that they would have provided significant new benefits to the Caribbean Basin region without harming the U.S. economy. Inclusion of these—or reasonably comparable—benefits in the final CBI bill would be very welcome. Indeed, we trust that you will be receptive to carefully crafted provisions which would not constitute a real threat to our industry.

At the same time, we should not lose sight of the many benefits other elements of new CBI legislation would provide the Caribbean Basin. We want to work with the Congress and the private sector to develop meaningful enhancement of the market access provisions that would ensure quick action on this legislation.

Other Provisions

The time and effort that went into H.R. 3299—both by the House and by the administration—produced many improvements over the original bill. For example, H.R. 3299 would allow the President to develop new rules of origin for products entering under the CBI. We endorse virtually all of the improvements in the House bill and hope that they will be included in the Senate bill.

But we do not want to just support what has already been done. The administration is still looking hard and wide for additional ways to enhance the CBI through new legislation. We would welcome hearing the ideas of your Committee.

CONCLUSION

I want to conclude by reemphasizing the strong commitment of this administration to a dynamic and vigorous program of economic development for the Caribbean Basin. The Caribbean Basin Economic Recovery act was intended to help the region advance when it was passed in 1983. We've been able to fulfill a large part of our original deal. The CBI is working well in many respects. We see significant improvements occurring in many sections of the region.

It is clear, however, that the CBI, properly strengthened, could accomplish much more. We now have a chance to address some of the elements that were left out of the current CBI.

Important economic changes are taking place throughout the world. We must help the Caribbean Basin be in a better position to take advantage of these events.

We will do everything we can to work with you to construct a good bill that helps both the Caribbean Basin and the United States.

Responses to Questions From Senator Bradley

SUGAR

Question. What was the level of new exports generated by the CBI program for each country for each year? For the same year, how much did each country lose in exports of sugar to the United States because of the reduction in our sugar import quotas?

Answer. We believe the level of new exports generated by the Caribbean Basin Initiative (CBI) has been substantial, but we cannot determined this with any degree of precision. We have enclosed two tables, prepared by the International Trade Commission, which show U.S. imports for consumption from CBI beneficiaries for the period 1983 (the year before the program began) through 1988 (the latest full year for which data exist)

However, we would caution against focussing solely on the total of U.S. imports from the CBI. The declining trend of our imports from the CBI during the 1983–88 period was largely due to the reduction in the value of our imports of petroleum and petroleum products, which fell from about $5 billion in 1983 to about $1 billion in 1988. The value of U.S. imports of non-petroleum products from the CBI rose by over 30 percent during this period. U.S. imports of non-traditional products (i.e., other than petroleum, coffee, sugar, etc.) from the CBI rose by over 75 percent. This trend in the growth of non-traditional imports continued for the first nine months of 1989 (the period for which 1989 data are available).

We have also enclosed tables showing U.S. imports by country under our sugar quota program. The quota is allocated on the basis of exporting countries' historical shipments to the United States during a representative time period in which no import restrictions were in place (1975–81). Aggregating the allocations made to individual CBI countries, the CBI is permitted to ship about 35 percent of the U.S. sugar import quota. The total quota for the first full quota year (October 1982–September 1983) before the CBI program began was about 2.6 million metric tons. The CBI's share of this was roughly 910,000 metric tons. The total quota for the current quota period (January 1989 through September 1990 is about 2.6 million metric tons. Converting this quota to an annualized basis (1.47 million metric tons), the CBI's share of the annualized quota would come to about 515,000 metric tons. The U.S. price received by CBI exporters during both the 1982/83 and the 1989/90 periods would be about the same—approximately 21 cents per pound. Based on this analysis, sales of sugar from all exporting countries, including the CBI, to the United States fell about 43 percent.

Question. The bill proposes a floor on sugar imports from CBI countries. Would such a region specific program be consistent with our obligations under the General Agreement on Tariffs and Trade (GATT)?

Answer. A provisions establishing an artificial floor on imports from any source (an individual country or a region) would violate Article XIII of the GATT. Article XIII requires that quantitative restrictions be allocated in a non-discriminatory fashion.

Second, these provisions would violate the terms of our GATT waiver, thereby jeopardizing the CBI program. We specifically promised in the GATT not to use the Article XXV waiver granted for the CBI program to discriminate in the allocation of sugar quotas.

Several of our trading partners (Australia, Mauritius, and Canada) have written to express their concern about the sugar proposals in the CBI legislation. They would likely challenge a discriminatory allocation in the GATT.

Question. Would it be possible to provide adequate compensation to trading partners adversely affected by such a program without using general government funds?

Answer. Compensation authority, provided in both S. 504 and H.R. 3299, does not address the problem that these provisions would be inconsistent with our GATT obligations. Under the GATT, compensation is a temporary measure—not a way of ignoring an obligation.

If we violated our GATT obligations and agreed to pay compensation, we would probably have to accept trade concessions in other areas of interest to sugar exporters. Finding suitable areas of compensation would be very difficult and would probably require us to involve other sensitive areas of the U.S. economy.

Question. Would a global floor on imports—at the current or some higher level—provide the Caribbean nations stable access to our market without discriminating against other suppliers?

Answer. A global floor on imports would potentially conflict with the sugar provisions of existing farm legislation. Under current law, the Administration is required to operate the sugar program at no net cost to the Federal Government. Imports therefore must be restricted to the difference between domestic consumption and production. If a global floor were established and the only way we could defend the minimum price were to reduce the quota below the floor, the Administration would have to violate one of the laws to comply with the other.

Question. How does the Administration intend to implement the recent GATT Council determination about the U.S. sugar program? When?

Answer. The dispute settlement panel report you have referred to concerned Australia's challenge to our sugar import quota. This challenge did not concern the sugar program, but rather the Administration's use of an absolute import quota under the headnote to the U.S. tariff schedule to implement the program. We are now studying options to comply with the panel report. The panel determined that the import quota violated the GATT rules.

We have an obligation under the GATT to bring our import policy into GATT compliance within a reasonable period of time. This is a complex legal and economic issue. The USDA has completed an analysis of the legal authorities available to the President to bring our import policy into GATT compliance.

As Ambassador Katz has recently testified before the House Ways and Means Committee, the President can impose a tariff quota scheme, import fees or quantitative limitations under Section 22 of the Agricultural Adjustment Act. We are now analyzing the economic effects of using these authorities. We will consult with the Congress and industry on these options.

Question. What impact does our delay in implementing the Council decision have on the Uruguay Round negotiations, and specifically on our efforts to improve the dispute settlement mechanism? Is there any indication that countries that have lost cases we have brought to the GATT (e.g., oilseeds), have used our delay to postpone implementation of these decisions favorable to us? What is the net effect of these delays on U.S. exports?

Answer. Although we have been making good process in our efforts to improve GATT dispute settlement, progress has slowed lately. The reason is that the negotiating group is now facing some very tough issues—such as the conditions for adoption of panel reports, and strengthening of procedures to encourage prompt compliance. And the compliance issue is exactly what we face here on the Australia—U.S. panel report on the headnote quota. If we drag our feet on compliance, others will believe we will tolerate delays by them. Examples include the cases on dairy against Canada, in which the Canadians have specifically noted our lack of implementation on the sugar report, and on beef quotas against Korea: in each case the losing party has continued its barriers to our exports, but the delay in action on the sugar report handicaps us in pushing harder.

With respect to the EC oilseeds GATT case, the Community has indicated that adjustments will be made in their regime by the 1991 crop year.

Question. The Administration's new agricultural proposal makes no mention of the sugar program. Why is Administration avoiding this issue, given its direct relevance to the CBI and to our overall trade policy? Is there some rationale for the omission?

Answer. The Administration's agriculture proposal in the Uruguay Round is broad in scope and includes sugar. Our objective is a comprehensive reform of agricultural policies on a global basis. We are prepared to negotiate the phase-out of trade-distorting policies affecting agriculture, including sugar, if other countries agree to do the same for their policies. We will not, however, unilaterally dismantle our sugar program. We urge the CBI nations to support our agriculture proposal in the Uruguay Round.

USTR ANNOUNCES SUGAR QUOTA ALLOCATIONS

U.S. Trade Representative Carla A. Hills announced today the new country-by-country allocations for sugar import quotas for January 1, 1989 through September 30, 1990.

The sugar import quota, as Secretary of Agriculture Clayton Yeutter announced today, is increased by 325,000 metric tons (about 358,255 short tons), from 2,259,865 metric tons, raw value, to 2,584,865 metric tons, raw value. The increase is effective Thursday, January 18.

The new quota allocations by country are as follows (in metric tons, raw value) for the period January 1, 1989 through September 30, 1990:

Argentina	104,160	Australia	201,054
Barbados	16,957	Belize	26,646
Bolivia	19,379	Brazil	351,238
Canada	26,646	Colombia	58,136
Congo	16,070	Costa Rica	49,758.5
Dominican Republic	426,331	Ecuador	26,646
El Salvador	71,034.1	Fiji	21,737
Gabon	16,070	Guatemala	116,272
Guyana	29,068	Haiti	16,070
Honduras	47,490.4	India	19,379
Cote D'Ivoire	16,070	Jamaica	26,646
Madagascar	16,070	Malawi	24,127
Mauritius	29,036	Mexico	16,070
Mozambique	31,490	Panama	(69,312)**
Papua New Guinea	16,070	Paraguay	16,070
Peru	99,316	Philippines	382,729
St. Kitts & Nevis	16,070	Swaziland	38,757
Taiwan	29,068	Thailand	33,912
Trinidad-Tobago	16,957	Uruguay	16,070
Zimbabwe	29,068		

**/ Panama's allocation of 69,312 metric tons is suspended and is not allowed to be shipped at this time. Panama's previously reallocated quota amount of 30,537 metric tons has been restored and is included in the current suspended allocation of 69,312 metric tons.

COUNTRY SUGAR QUOTA ALLOCATIONS
1982/83 - 1988 1/
(Short tons, raw value)

Country and Percentage	10/1/82-9/30/83 2/	9/26/83-9/30/84 3/	10/1/84-11/30/85	12/1/85-12/31/86	1/1/87-12/31/87	1/1/88-12/31/88
Argentina(4.3)	120,400	130,806	109,220	73,788	39,130	43,175
Australia (8.3)	232,400	252,486	210,820	142,428	75,530	83,335
Barbados (0.7)	19,600	21,294	17,780	12,500	7,500	8,205
Belize (1.1)	30,800	33,462	27,940	18,876	10,010	11,045
Bolivia (0.8)	22,400	24,336	20,320	13,728	7,500	8,230
Brazil (14.5)	406,000	441,090	368,300	248,820	131,950	145,590
Canada (1.1)	30,800	33,462	27,940	18,876	10,010	11,045
Colombia (2.4)	67,200	73,008	60,960	41,184	21,840	24,100
Congo (4/)	---	16,776	12,500	12,500	7,500	8,000
Costa Rica (1.5)	42,000	62,415	52,302	34,713	17,583	19,577.5
Dominican Rep (17.6)	492,800	535,392	447,040	302,016	160,160	176,710
Ecuador (1.1)	30,800	33,462	27,940	18,876	10,010	11,045
El Salvador (2.6)	72,800	89,163	74,561	49,999.8	26,019.8	28,815.5
Fiji (0.7)	19,600	21,294	17,780	12,500	25,190	9,035
Gabon (4/)	---	---	12,500	12,500	7,500	8,000
Guatemala (4.8)	134,400	146,016	121,920	82,368	43,680	48,185
Guyana (1.2)	33,600	36,504	30,480	20,592	10,920	12,050
Haiti (4/)	16,500	16,776	12,500	12,500	7,500	8,000
Honduras (1.0)	28,000	59,514	50,017	32,713.2	15,917.2	17,877
India (0.8)	22,400	24,336	20,320	13,728	7,500	8,230
Ivory Coast (4/)	16,500	16,776	12,500	12,500	7,500	8,000
Jamaica (1.1)	30,800	33,462	27,940	18,876	10,010	11,045
Madagascar (4/)	16,500	16,776	12,500	12,500	7,500	8,000
Malawi (1.1)	19,600	29,294	35,400	17,160	9,100	10,045
Mauritius (1.1)	30,800	33,462	27,940	30,592	10,920	12,050
Mexico (4/)	16,500	16,776	12,500	12,500	7,500	8,000
Mozambique (1.3)	36,400	39,546	33,020	22,308	11,830	13,055
Nicaragua (---)	58,800	6,000	6,000	---	---	---
Panama (2.9)	81,200	88,218	73,660	49,764	26,390	0
Papua New Guinea (4/)	---	---	12,500	12,500	7,500	8,000
Paraguay (4/)	16,500	16,776	12,500	12,500	7,500	8,000
Peru (4.1)	114,800	124,722	104,140	70,356	37,310	41,165
Philippines (13.5)	378,000	410,670	342,900	246,999 5/	143,780	158,640
St. Christopher (4/)	16,500	16,776	12,500	12,500 5/	7,500	8,000
South Africa (2.3)	64,400	69,966	58,420	24,129 5/	---	---
Swaziland (1.6)	44,800	48,672	40,640	27,456	14,560	16,065
Taiwan (1.2)	33,600	36,504	30,480	20,592	10,920	12,050
Thailand (1.4)	39,200	42,588	35,560	24,024	12,740	14,055
Trinidad-Tobago (0.7)	19,600	21,294	17,780	12,500	7,500	8,205
Uruguay (4/)	---	16,776	12,500	12,500	7,500	8,000
Zimbabwe (1.2)	33,600	36,504	30,480	20,592	10,920	12,050
Base Quota	2,800,000	3,050,000	2,550,000	1,720,000	910,000	975,000
Base with specialty	2,802,000	3,052,000	2,552,000	1,722,000	912,000	977,000
Total Quota 6/	2,892,600	3,175,190	2,677,000	1,850,054	1,003,430	1,056,675

1/ Additional allocations were as follows: May 11, 1982-June 30, 1982--220,000 short tons; July 1, 1982-September 30, 1982--420,000 short tons. 2/ Does not reflect global reallocation of shortfalls (by Ecuador and Trinidad-Tobago) of a combined 50,400 short tons. 3/ Reflects global allocation of 100,000 ton increase enacted on April 5, 1984. 4/ May ship pro rata share of .3 percent of quota or minimum quota amount. 5/ As of September 30, 1986, South African quota transferred to the Philippines by the Comprehensive Anti-Apartheid Act of 1986. 6/ Including minimum quota amount.

Table 1-2
U.S. trade with countries designated under the CBERA,[1] 1983-87

Year	U.S. exports	Share of U.S exports to the world	U.S. imports	Share of U.S imports from the world	U.S. trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1983	5,532.0	2.8	8,763.9	3.4	(3,231.9)
1984	5,952.9	2.8	8,649.2	2.7	(2,696.4)
1985	5,743.0	2.8	6,687.2	1.9	(944.2)
1986	6,064.6	2.9	6,064.7	1.6	(0.1)
1987	6,668.3	2.7	6,039.0	1.5	629.3

[1] Beneficiary countries during 1987.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1-3
U.S. imports for consumption, by countries, designated or nondesignated under the CBERA, 1983-87
(Customs-value basis, in thousands of dollars)

Country	1983	1984	1985	1986	1987
Designated:					
Antigua	8,809	7,898	24,695	11,849	8,621
Aruba[1]	([2])	([2])	([2])	1,797	2,452
Bahamas	1,676,394	1,154,282	626,084	440,985	377,881
Barbados	202,047	252,598	202,194	108,991	59,110
Belize	27,315	42,843	46,951	50,181	42,906
British Virgin Islands	880	1,335	11,902	5,904	11,162
Costa Rica	386,520	468,633	489,294	646,508	670,953
Dominica	242	86	14,161	15,185	10,307
Dominican Republic	806,520	994,427	965,847	1,058,927	1,144,211
El Salvador	358,898	381,391	395,658	371,761	272,881
Grenada	211	766	1,309	2,987	3,632
Guatemala	374,692	446,267	399,817	614,708	487,308
Haiti	337,483	377,413	386,697	368,369	393,660
Honduras	364,742	393,789	370,219	430,906	483,096
Jamaica	262,360	396,949	267,016	297,891	393,912
Montserrat	924	989	3,620	3,472	2,413
Netherlands Antilles[3]	2,274,510	2,024,367	793,162	453,333	478,836
Panama	336,086	311,627	393,605	352,206	342,700
St. Christopher-Nevis[4]	18,758	23,135	16,258	22,278	23,793
St. Lucia	4,700	7,397	13,796	12,269	17,866
St. Vincent and Grenadines	4,276	2,958	9,643	7,836	8,493
Trinidad and Tobago	1,317,534	1,360,106	1,255,498	786,405	802,838
Total	8,763,900	8,649,235	6,687,226	6,064,745	6,039,030
Nondesignated:					
Anguilla[5]	([2])	([2])	([2])	89	168
Cayman Islands	8,607	6,212	10,950	14,611	27,670
Guyana	67,332	74,417	46,010	62,928	58,828
Nicaragua	99,013	58,064	41,003	1,071	1,231
Suriname	33,147	104,636	60,091	38,591	46,445
Turks and Caicos Islands	3,965	3,935	4,649	4,792	4,680
Total	242,065	247,264	162,703	122,081	139,022
Grand Total	9,005,965	8,896,499	6,849,928	6,186,826	6,178,052

[1] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
[2] Not available.
[3] See footnote 1.
[4] Anguilla, which has not been designated as a beneficiary country, had been included with the data for St. Christopher-Nevis through 1985. For 1986 and 1987, data for Anguilla have been excluded and are shown separately among the nondesignated countries.
[5] See footnote 4.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1–4

U.S. imports for consumption from countries designated under the CBERA, by major groups, 1984–88

(In thousands of dollars, customs value)

Area or Country	*1984*	*1985*	*1986*	*1987*	*1988*
Non-oil-producing countries:					
Central America:					
Belize	42,843	46,951	50,181	42,906	52,049
Costa Rica	468,633	489,294	646,508	670,953	777,797
El Salvador	381,391	395,658	371,761	272,881	282,584
Guatemala	446,267	399,617	614,708	487,308	436,979
Honduras	393,769	370,219	430,906	483,096	439,504
Panama[1]	311,627	393,605	352,206	342,700	256,046
Subtotal	2,044,530	2,095,344	2,466,270	2,299,843	2,244,959
Eastern Caribbean:					
Antigua	7,898	24,695	11,849	8,621	6,893
Barbados	252,598	202,194	108,991	59,110	51,413
British Virgin Islands	1,335	11,902	5,904	11,162	684
Dominica	86	14,161	15,185	10,307	8,530
Grenada	766	1,309	2,987	3,632	7,349
Guyana	[2]	[2]	[2]	[2]	50,432
Montserrat	989	3,620	3,472	2,413	2,393
St. Kitts and Nevis[3]	23,135	16,258	22,278	23,793	20,822
St. Lucia	7,397	13,796	12,269	17,866	26,044
St. Vincent and Grenadines	2,958	9,643	7,836	8,493	13,950
Subtotal	297,161	297,578	190,771	145,397	188,510
Central Caribbean:					
Dominican Republic	994,427	965,847	1,058,927	1,144,211	1,425,371
Haiti	377,413	386,697	368,369	393,660	382,466
Jamaica	396,949	267,016	297,891	393,912	440,934
Subtotal	1,768,790	1,619,560	1,725,186	1,931,783	2,248,771
Total non-oil producing countries	4,110,481	4,012,482	43,382,228	4,377,024	4,682,240
Oil-producing countries:					
Aruba	[4]	[4]	1,797	2,452	647
Bahamas	1,154,282	626,084	440,985	377,881	288,328
Netherlands Antilles[4]	2,024,367	793,162	453,333	478,836	408,100
Trinidad and Tobago	1,360,106	1,255,498	786,405	802,838	701,738
Total oil producing countries	4,538,754	2,674,744	1,682,519	1,662,006	1,378,813
Grand total	8,649,235	6,687,226	6,064,745	6,039,030	6,061,054

[1] Panama was a designated beneficiary until Apr. 9, 1988.
[2] Not applicable. Guyana was not designated as a beneficiary until Nov. 24, 1988.
[3] Through 1985, data for St. Kitts and Nevis included Anguilla, a nondesignated country. For 1986–88, data for Anguilla have been excluded.
[4] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Prepared Statement of Mark W. Love

INTRODUCTION AND SUMMARY

This statement is submitted on behalf of the following member organizations of the Leather Products Coalition:

- Amalgamated Clothing & Textile Workers Union, AFL-CIO
- Footwear Industries of America, Inc.
- International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
- Luggage and Leather Goods Manufacturers of America, Inc., AFL-CIO
- Work Glove Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association concurs in this statement.

The Leather Products Coalition opposes both the tariff/rate (duty-free) quota provisions of S. 504 for footwear and leather-related products and section 10412 [1] of H.R. 3299, which would require that substantial duty reductions be made on leather-related products (luggage, flat goods, handbags, work gloves and leather wearing apparel) when imported from CBI beneficiary countries. The effect of both these provisions runs contrary to the intent of the original CBI's exemption from duty-free treatment for the import-sensitive products of these industries.

There is no justification for Congress to reverse itself on this issue. The collective health of these industries is far, far worse than when Congress first granted the duty-free exemption. At the time of the original exemption, Congress said that these industries "would not survive" if faced with duty-free import competition from the Caribbean. If that was the case then, the situation is doubly so today.

Because of the exemption that was granted by the Congress in the original legislation, we believed that Congress recognized and accepted the plight of these industries, and, furthermore, had spoken definitively on the issue of our exemption. We also sought and received the same assurances from key Administration officials: It was the position of the last two U.S. Trade Representatives that the Administration would not seek legislation to eliminate the exemption for leather products. They said that their efforts would instead be directed at effective implementation of the original Act. Former Trade Representative William Brock even stated that his aide had made that point "clear to all the Caribbean governments" as he traveled throughout the region. (See Attachment 1.)

Thus a policy in effect for these industries that had been well articulated in the legislation, Committee Report, and pointedly made to Caribbean leaders by U.S. trade officials could possibly be reversed by this Congress. This is not only inconsistent, but unnecessary and unfair as will be shown below. Moreover, workers in these industries cannot be asked to carry the entire burden for policy decisions that the full country should bear.

Our industries are convinced that the real economic development problems of the Caribbean will not be solved by giving the region duty preferences on these products. On the other hand, such tariff preferences will hurt domestic manufacturers of these products: Many will be forced to cut their slim operating margins still further, and for others, further tariff reductions may be the deciding factor in the decision to continue manufacturing in the U.S. or to go offshore. This will mean more jobs lost in these industries.

Unfortunately, improved market access on the products of our industries has been put forward as the answer to the region's economic woes and as a solution to the less than anticipated success of the original CBI. This approach is disingenuous: Every report that has been done on the region points to the real culprit that has hampered economic development—and it is not the lack of tariff preferences on the exempt products. It is infrastructural development. Neither of the legislative proposals pending before the Committee even attempt to address this issue.

Finally, the House of Representatives has made a good start in recognizing that some of the products of our industries should not be accorded CBI duty preferences by dropping footwear and textile products from the bill; however, the other leather-

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[1] Section 10412 of H.R. 3299 was amended on the House Floor on September 27, 1989 to delete tariff preference provisions for apparel and textile products, and all non-leather footwear (leather footwear had been removed from the bill's provisions in an earlier Ways and Means Committee mark-up.) Coalition members were greatly concerned, however, that the amendment did not extend to other leather-related products, which were, seemingly, singled out in the House bill for severe duty reductions. While the Coalition is pleased that the House wisely recognized the importance of removing tariff preferences for footwear and textile products from CBI II, it hopes that the Senate will improve on the House proposal and drop the other leather-related products from CBI II.

related products should have been dropped from the House proposal as well. The fact that some of our products remain in the House proposal while others have been dropped is a mystery and without justification. The Coalition hopes that the Senate will adopt the House proposal to maintain regular MFN duty rates on footwear and textile products and expand it to cover the other leather-related products. This is critically important as explained in the next section.

DUTIES PLAY A VITAL ROLE IN THESE INDUSTRIES' ABILITY TO REMAIN COMPETITIVE

Duty range for these products is 6 percent to 67 percent, so the duty incentive to produce these products in greater quantity in the region is substantial (see Table 1).

Of equal importance, however, is that the ability to import these articles in the duty-free quantities, as proposed in S. 504, or at reduced duty rates, as has been proposed by the Administration in its proposal to the House Ways and Means Committee, would substantially undercut the ability of domestic producers to compete in a marketplace where they are already struggling to remain competitive against imports. With sales and profit margins already squeezed by imports, the elimination/reduction of duties on such a potentially large number of products could make the difference between whether or not a domestic producer can remain competitive or even continue to produce in a marketplace already saturated with low-cost imports.

Tariffs play an important role in these industries' ability to compete against imports from low-wage countries, as duties reduce the margin between the average unit values of imports and domestically-produced products. U.S. production unit labor costs are significantly more efficient and U.S. workers more productive than those in the Caribbean, but this alone can not necessarily close the gap between the cost of production in the U.S. and the Caribbean. Thus, duties can be the critical factor in these industries' continued ability to compete against these imports.

A recent International Trade Commission (ITC) study establishes the importance of tariffs to these industries.[2] The ITC quantified the effects of eliminating tariffs on the products of several of these industries. The results showed that the negative consequences for domestic producers and workers, in the form of reduced domestic shipments and employment losses, would be severe. Moreover, the economy as a whole would suffer losses. This independent study lends further support to our position that these industries' tariffs must be maintained.

Table I.—DUTY RANGE FOR LEATHER-RELATED PRODUCTS

[In percent]

Product	Duty
Nonrubber Footwear	[1] 8.8
Rubber Footwear	20–67
Luggage	6.8–20
Flat Goods	8
Handbags	5.3–20
Leather Apparel	6
Leather-Related Work Gloves	14–25

[1] Trade-weighted.

ECONOMIC SUCCESS OF THE CBI DOES NOT HINGE ON PREFERENTIAL TARIFF TREATMENT FOR EXEMPT PRODUCTS

It should be abundantly clear by now to anyone who has examined the data, that a sharp growth in Caribbean imports has been posted in the very products whose duties are being sacrificed by this legislation. True, total U.S. imports from CBI countries have fallen since the first initiative began in 1983, from $9.6 billion to $6.8 billion, but that is largely attributable to declining prices for oil and coffee and the decline in sugar imports On the other hand, CBI imports of manufactured products actually grew from $1.1 billion to $2.5 billion over this period, and textiles, footwear and other leather products, together, accounted for virtually all of that import growth. The U.S. industries producing these products have made the major sacrifice that has fueled this growth. Why then the insistence On squeezing these troubled U.S. industries further?

[2] International Trade Commission publication 2222, October 1989.

In fact, lack of tariff preferences on the exempt products has not discouraged investment in these industries. Investment in the duty-free exempt industries is soaring in the Caribbean. Despite a myriad of problems associated with doing business in the region, more and more companies, both U.S. and Asian, are setting up shop there because of proximity to the U.S. market, lower wage rates relative to NIC's in Asia, and easier access to the U.S. market for textile products. The International Trade Commission's (ITC) Fourth Annual Report on the CBI verifies these findings. According to the report, "[m]uch of the new investment attracted to the region involves the production of goods that are ineligible for duty-free treatment . . ." The Report goes on to state that "[l]ower wage rates and proximity to the U.S. market may be significant factors encouraging some investment, regardless of the availability of tariff preferences."

Given these developments it is clear that even without the preferential tariff rates, our industries will see huge increases in the levels of imports from the Caribbean In the future. Again, the ITC's Report is illuminating on this point: It states that some experts predict, $10 billion in new investment by Asian interests in CBI countries over the next few years. Since the overwhelming majority of U.S. imports of our industries, products are from Asian countries, this Asian investment in the Caribbean is cause for concern.

CONGRESS EXEMPTED FOOTWEAR AND LEATHER-RELATED PRODUCTS FROM THE ORIGINAL CBI PROGRAM DUE TO IMPORT SENSITIVITY

When Congress passed the Original CBI legislation, it exempted certain products from the duty-free trade provisions of the legislation: textiles, textile products, footwear, and other leather-related products (luggage, personal leather goods, work gloves, wearing apparel and handbags) because of these products' import sensitivity. The Ways and Means Committee Report (No. 97-958) on the CBI legislation explained the exemption for these products in the following way:

> First, while Caribbean Basin imports constitute a very small portion of U.S. market penetration at the present time, growth of some of these products has been Substantial from certain Caribbean countries in the past two years and is likely to increase further in a very short period of time with the incentive of unlimited duty-free access to the U.S. market. Second, these industries, which have already been heavily impacted by increased imports, would not survive if faced with duty-free import competition from the Caribbean Basin. The relatively few jobs remaining in these industries should not be sacrificed, as they are located primarily in small towns or counties with very little manufacturing, high unemployment, and little likelihood of alternative employment opportunities in the foreseeable future.

IMPORT LEVELS OF LEATHER-RELATED PRODUCTS HAVE RISEN DRAMATICALLY AND EMPLOYMENT HAS CONTINUED TO DECLINE IN THESE INDUSTRIES

As explained in the Committee Report cited above, Congress exempted these products from the CBI legislation because of exceedingly high import levels in these industries—levels that have risen dramatically since the time Congress voted to exempt leather-related products from the original CBI bill, as can be seen below and in Figure 1:

Table 2.—IMPORT PENETRATION RATES FOR CERTAIN CBI EXEMPT INDUSTRIES

[In percent]

	1982	1988
Nonrubber Footwear	58	81
Rubber Footwear	51	64
Luggage	34	68
Flat Goods	19	47
Handbags	81	88
Leather Apparel	55	81
Leather Work Gloves	54	70

Between 1982-88, 49,000 jobs were lost in the nonrubber footwear industry, 6,200 jobs were lost in rubber footwear, 2,000 jobs were lost in the luggage industry,

11,100 jobs were lost in the personal leather goods and handbag industries, and 1,800 jobs were lost in the leather work glove and leather apparel industries. This represents a decline of employment in these industries of 34 percent. (See Figure 2.)

The U.S. workers who are being displaced are among the least educated, least skilled, least paid, and least employable of our labor pool. Many are minorities. Many are women who head households or who are the major income source in their families. Many live in rural towns where there is no alternative employment. Many live in the inner cities where the only alternative to working in these industries is even lower-paying service sector jobs or public assistance.

IMPORTS OF LEATHER-RELATED PRODUCTS AND FOOTWEAR UPPERS HAVE BEEN GROWING FROM THE CARIBBEAN

According to the Fourth Annual Report on the CBI issued by the USITC, U.S. imports of leather-related products not eligible for duty-free treatment under the CBI have been growing between 1983–1988. U.S. imports of these products have shown the following growth: certain handbags, luggage and flat goods increased by 21 percent; work gloves increased by almost 71 percent; and leather apparel by 50 percent, reaching $31 million for these products. CBI countries have also seen a phenomenal rise in the production of footwear components. In the case of footwear uppers, the most labor intensive part of the shoe, imports from the CBI rose from about $34 million in 1983 to $91 million in 1988, representing a 168 percent increase and now exceed 29 million pairs. Given the growth of imports of leather-related products and footwear uppers from the Caribbean, it is evident that duty-free treatment on footwear and leather-related products is not necessary to the expansion of these industries in the Caribbean.

THE FOOTWEAR AND LEATHER-RELATED PRODUCTS INDUSTRIES OF PUERTO RICO COULD BE HURT IF CBI COUNTRIES ARE GRANTED FREE OR CONCESSIONARY DUTY RATES ON THESE PRODUCTS

The significant footwear and leather products industries that exist today in Puerto Rico could be jeopardized if the Caribbean countries are granted concessionary duty rates on these products. A number of twin plant operations have been established between Puerto Rico and the Caribbean for the production of footwear and leather products. If these products are granted duty-free or reduced rates of duties when imported from the Caribbean, these twin plant operations could be jeopardized as production could-move entirely to the Caribbean. We cannot imagine that Congress would intend the bill to have this effect.

CONCLUSION

At a time when these industries are expanding in the Caribbean, the domestic footwear, luggage, flat goods, handbag, leather apparel and-work glove industries have been contracting. Under the circumstances, is it necessary or fair to require that these industries cede even more of their vastly shrunken markets?

Furthermore we do not believe that our industries should have to shoulder the burden of economic development in the Caribbean in addition to everywhere else in the world. Our industries have been called upon repeatedly to sacrifice jobs and production in this country to accommodate the needs of developing countries as they industrialize. We suspect that no other industries have given up so much of their markets to developing countries as have the leather-related industries.

There is no MFA for leather-related products to help manage trade in these industries—industries that are as import sensitive or even more so than textiles and apparel.

There are some in Congress who believe that the U.S. has not done enough to help the Caribbean. They have targeted the footwear and leather-related products industries believing, apparently, that these industries still have something left to give. It should be abundantly clear by now that this is not the case. Therefore, we urge this Committee to abandon this ill-advised proposal, and consider other alternatives that do not require such a tremendous sacrifice from one particular sector of the U.S. economy.

Attachments.

WASHINGTON
20506

Attachment 1

March 26, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 22209

Dear Mr. Langstaff:

You noted in your letter of March 4 that leaders of several Caribbean countries have urged that the Caribbean Basin Economic Recovery Act be amended to add textiles and apparel products and footwear to the list of items eligible for duty-free treatment under the Act.

I can assure you that the Administration has no plans to reopen the legislation. That point was made clear to all of the Caribbean governments by Grant Aldonas of my staff during his recent trip through the region. Our efforts will be directed rather at the effective implementation of the current law and its incentives to investors in the broad range of product categories presently covered by the Act.

Very truly yours,

WILLIAM E. BROCK

WEB:ael

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

October 7, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 11109

Dear George:

Thank you for your recent letter regarding President Reagan's Caribbean Basin Initiative. I would like to reaffirm that the Administration has no plans to reopen the Caribbean Basin Economic Recovery Act. I agree with my predecessor, Secretary Brock, that we must concentrate our efforts on effective implementation of the Act so that the region may realize the full benefits to be gained from the broad range of products which are covered by the legislation.

I hope that my response will serve to reassure you as to the Administration's intentions in this regard.

Sincerely,

Clayton Yeutter

CY:sec

Figure 1

Import Penetration Rates
CBI Exempt Leather - Related Industries

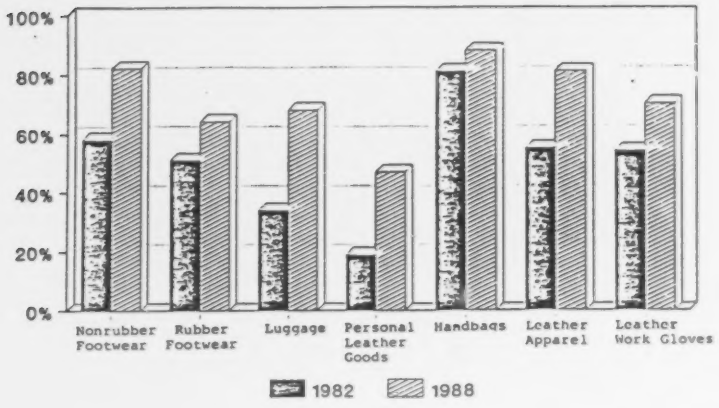
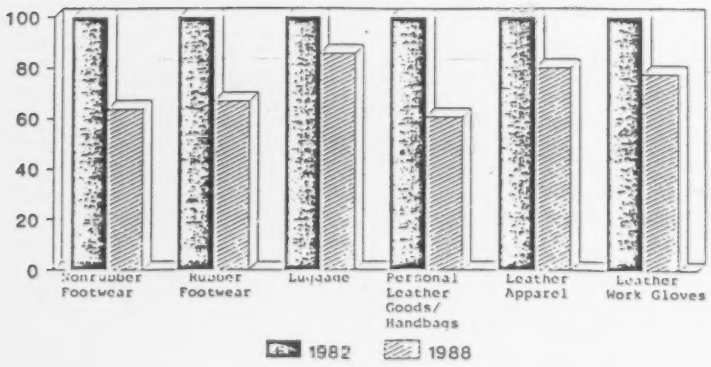


Figure 2

Index of Employment
1982 - 1988
index: 1982 = 100



PREPARED STATEMENT OF PAUL MCCORMACK

The American Association of Exporters and Importers (AAEI), a national association comprised of 1200 U.S.-company members, welcomes the opportunity to comment on Caribbean Basin Economic Recovery Act (CBI-II). Our members export, import, distribute and manufacture the complete spectrum of products, with over 300 members involved in textile and apparel trade, making AAEI the largest association representing such firms, and over 50 firms trading footwear.

Given AAEI's long-standing support for the liberalization of the international trading regime, the Association generally favors the Caribbean Basin Economic Recovery Expansion Act of 1989, or "CBI-II." Over the years, AAEI has been a strong proponent of the U.S. policy of strengthening the economies of developing countries by facilitating access to U.S. markets for their products, as exemplified in the CBI program. This policy not only promotes free enterprise in developing countries and provides U.S. consumers with greater choice and lower prices, but, in the longer term, enhances the competitiveness of U.S. industry and creates opportunities for U.S. exports as the economies of the developing countries prosper and expand. Thus AAEI supports the extension of and moderate duty reduction proposed under CBI-II, particularly with respect to textile trade, so long as other nations are not disadvantaged by liberalization taken under the CBI.

1. TEXTILE AND APPAREL PROVISIONS UNDER CBI-II

With regard to trade in textiles and apparel, AAEI is very much in agreement with President Bush who recently stated in a Memorandum to his Cabinet that "CBI countries should continue to enjoy special and more liberal treatment under our textile import program." The textile and apparel industry is the Caribbean Basin's single largest employer of labor, an important source of foreign exchange, and is essential to the continued development of the precarious economies of member countries. Assembly of textile products has proven well-suited to the economies and labor forces of CBI countries and must be promoted in ways that do not disadvantage other interested parties.

Specifically, AAEI supports those provisions under Section 10411 of H.R. 3299 related to the Guaranteed Access Level ("GAL") program, whereby CBI apparel assembled from U.S. fabric that is both cut and formed in the U.S. is subject to special flexible quota limits. Those provisions would codify the existing GAL program, require the USTR to enter into negotiations with CBI countries requesting GALs, and extend duty free treatment to products entered under GALs. The Association also urges the passage of the proposed 50% duty reduction for other currently excluded textile and apparel products.

The proposed amendments to the textile and apparel provisions of the CBI, while providing no greater quantitative access to the U.S. market than is currently enjoyed by Caribbean countries under the program, would increase the attractiveness of sourcing from the CBI by slightly reducing the duty on certain Caribbean textile products. In the case of providing duty free treatment for goods entering under GALs where duty is currently paid on the value added in the Caribbean country, the effective duty rate would fall from 4.86% to zero.

Moreover, U.S. apparel manufacturers are, by and large, the biggest beneficiaries of any reduction in duty under the CBI, given the GALs' limited applicability to garments assembled from U.S. formed and cut fabric. The savings accrued from assembly in the Caribbean under the Special Access Program (GALs) results not only lower prices and greater choice for U.S. consumers, but also, in many cases, increased viability and job creation for U.S. apparel makers.

The Association urges, however, that any liberalization of textile and apparel trade under the CBI be taken in the context of U.S. commitments to liberalize global textile trade over time by phasing out the MFA and bringing textile trade under the General Agreement on Tariffs and Trade. AAEI is particularly alarmed by suggestions that any marginal reduction of duty on textile goods from the Caribbean be offset with absolute cuts in quota from other textile and apparel exporting nations. AAEI opposes, in the strongest terms possible, cuts or "rollbacks" in textile and apparel quotas for any country, for any reason.

Rather AAEI believes that the U.S. should allow market forces to determine whether firms wish to shift some sourcing to the Caribbean to take advantage of further liberalization through duty reduction. Mandated shifts should not be used as leverage in textile negotiations or be instituted by governmental fiat, either congressionally or administratively.

Unfortunately, with the negotiation of new bilateral agreements with several traditional East Asian suppliers last December, it has now become apparent that the

U.S. is pursuing a policy of rolling back unused quota levels for those countries. This action comes despite general U.S. commitments under the GATT Uruguay Round not to embark on new trade restricting policies while GATT negotiations are underway and the fact that Congress has not mandated any rollback of quotas. However, if the U.S. is going to institute such rollbacks in quota for East Asian suppliers, which now seems to be the case, then Congress should ensure that the second part of the deal—that that unused quota will then be redistributed to developing countries and Caribbean nations in particular—is also carried out. Passage of the moderate liberalization of textile trade with CBI countries under consideration by the Committee would be a step in that direction.

2. FOOTWEAR PROVISIONS UNDER CBI-II

The Footwear Group of AAEI is comprised of close to 50 U.S. importers, retailers, distributors and manufacturers of footwear which employ thousands of workers. The Group generally supports S. 504 and Sections 109401-10425 of H.R. 3299. Extension and expansion of the Caribbean Basin Economic Recovery Act will benefit the U.S. as much as the intended beneficiary countries.

The Group believes, however, that the legislation referred to above, if enacted, would not realize the full potential of the region or the full benefits to the U.S. economy. Instead of only a 50% reduction in duties on footwear, all footwear should be duty-free from CBI countries. Such a step would shift production from other countries to CBI members as the duty-free rates, plentiful supply of labor, and the continued lower U.S. dollar attract manufacturers who now are in East Asia or other developing regions.

The current CBI program has not achieved its intended results (thus the need for CBI-II) primarily due to the special interest limitations put on labor-intensive manufactured products. The House proposed 50% duty reduction on all but leather footwear, while well-intended, is virtually meaningless when the duty rates on such footwear average over 30% *ad valorem* (compared to a 4-5% across the board average). A 50% discount rather than elimination of duties on footwear for which there is no domestic production, such as rubber, athletic and footwear under $5.00 a pair, obviously does not go far enough to benefit the U.S. industry and continues to tax U.S. consumers least able to pay.

The AAEI Footwear Group believes that the provision mandating that a certain percentage of components used in CBI goods be of U.S. origin will increase domestic production as production in CBI countries increases. Many U.S. manufacturers are already taking advantage of the CBI in other areas, such as textiles and apparel and sporting goods. The lower labor costs as well as an increasing, rather than decreasing, labor pool make the CBI region an attractive investment opportunity. Duty free treatment of footwear will allow a U.S. manufacturer to retain its operations in the U.S. as its potential workforce continues to shrink. AAEI urges that attempts to strip out leather footwear and all footwear from the CBI be opposed, and that duty free treatment be extended to all footwear from the region made with U.S. components. Only then will the full benefits of the legislation be realized.

3. CHANGES TO THE GENERALIZED SYSTEM OF PREFERENCES UNDER CBI-II

Many of AAEI's members are involved in trade under the Generalized System of Preferences (GSP), another trade development program based on the same policies as the CBI. On behalf of those members, AAEI wishes to share with you its concern over the Administration's attempt to use the CBI bill—a trade development/liberalization bill—as a vehicle to restrict further the GSP program.

Recently, the Court of Appeals for The Federal Circuit (CAFC) affirmed *Madison Galleries* v. *U.S.* (Appeal No. 88-1559, 3/8/89). That case held that in order to qualify for benefits under the GSP, a U.S. business only had to meet the 35% value added test, regardless of whether the 35% consisted of material or products of the Beneficiary Developing Countries (BDC), or the BDC's direct cost of processing.

The Administration (U.S.T.R.) disagrees with the court's ruling and has proposed to overturn it through an amendment to CBI-II. The U.S. trade community strongly opposes this change, initiated by the Administration. Of special concern is the fact that no hearings have been held or are scheduled on the issue, and, in fact, this is the first opportunity to testify on the proposed change.

Rather than precluding the BDC's direct processing costs alone from being considered for GSP qualification under the 35% value added test, as proposed by the Administration, AAEI urges the expansion of the CBI to include products produced with the use of direct labor in the CBI country which add at least 35% of the appraised value to the imported article. In other words, instead of adopting the Ad-

ministration's amendment to the CBI which runs counter to the expressed intent of trade expansion behind both the CBI and GSP programs, AAEI urges that the CBI be expanded to reflect value-added definition of the CAFC. AAEI requests that appropriate hearings be held and full consideration be given by Congress to this unwarranted attempt to contravene legal precedent and reverse the present statutory authority. To this end, we urge that Section 10427 be deleted from H.R. 3299.

The American Association of Exporters and Importers, its Textile and Apparel Group, and Footwear Group appreciate the opportunity to comment on and looks forward to the speedy consideration of CBI-II. While generally supporting the extension of and duty reductions under CBI-II, AAEI urges the Committee to approve the legislation with the textile and apparel, and footwear provisions intact and in a form which will not disadvantage other exporting nations. Thank you for your consideration.

Attachment.

AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS,
New York, NY, February 23, 1990.

Mr. VAN MCMURTRY, *Staff Director,*
Senate Finance Committee,
Dirksen Senate Office Building,
Washington, DC

Dear Mr. McMurtry: Pursuant to Committee Press Release No. H-5, the American Association of Exporters and Importers, on behalf of our members, would like to urge the Committee to allow a 50% duty reduction on all work gloves under the Caribbean Basin Economic Recovery Act, as apparently provided in House Report 101-262, "Providing For The Further Consideration Of H.R. 3299."

Additionally, attached please find further comments on the Caribbean Basin legislation, for consideration by the Finance Committee, expressed to the Association by U.S.-company member firms. The Association appreciates both the opportunity to comment on this important piece of legislation and your continued consideration.

Sincerely,

EUGENE J. MILOSH, *President.*

MODIFICATIONS OF TRADE REMEDY LAWS

1. The principle of taking trade action against CBI imports only if they themselves cause injury to U.S. producers should apply to escape clause cases as well as to unfair trade cases. Therefore, CBI II should include a provision similar to that contained in the U.S.-Canada Free Trade Agreement which exempts Canada from most escape clause relief if imports from Canada comprise ten percent or less of total U.S. imports of the product in question.

2. Another provision which could be drawn from the U.S.-Canada Free Trade Agreement concerns the duration of import relief under the escape clause. Under the FTA, if imports from Canada are found to be causing serious injury to U.S. industry, the period of time under which they could lose duty-free treatment is limited to a maximum of three years.

3. The original CBI provided that expedited U.S. import relief against perishable products from CBI beneficiary countries could only take the form of tariffs. These provisions were superseded by the 1988 Trade Law, which allowed quotas to be imposed on perishable products from all sources, including the Caribbean Basin. CBI II should reinstate the special procedures for CBI perishable products and exempt CBI imports from the newer procedure.

4. The Trade and Competitiveness Act of 1988 may preclude the USITC from accounting for U.S. industry profits from co-production ventures in determining whether imports are causing injury to U.S. producers. Through co-production, both United States and Caribbean producers benefit from a successful CBI program. Therefore, in cases involving co-production between U.S. and Caribbean producers, the USITC should be able to consider profits generated by these activities.

LIBERALIZE RULES OF ORIGIN

5. Request that USTR negotiate an arrangement with Canada to assure that Caribbean Basin inputs are treated as equivalent to Canadian or U.S. inputs for purposes of the Free Trade Agreement. This would eliminate the current situation whereby CBI imports which undergo only minor processing in the United States cannot enter Canada duty-free and CARICOM imports which enter the United

States after minor processing in Canada are ineligible for U.S. duty free treatment since in both cases substantial transformation does not occur to bestow FTA origin. It would also begin addressing the problem of how to gain some form of duty free treatment for Central American exports to Canada beyond GSP.

6. The E.C.-Lome practice of bestowing origin on otherwise ineligible beneficiary exports for a limited but specified period, should be adopted in order to permit start up operations to develop sufficient local content to be eligible for trade preferences. This practice should include appropriate interim safeguards to realize the full benefit of the exception.

EXCLUSIONS

7. Establish a system for conferring duty preferences to exempted articles where it is demonstrated that such action would not have an adverse effect on U.S. domestic industry. These determinations could be reached through annual reviews conducted by the Office of the U.S. Trade Representative and the United States International Trade Commission (USITC), similar to GSP reviews. As under GSP, only items subject to a petition would be reviewed. One potential guideline for the review would be to designate products where major imports come from other regions and domestic production supplies less than a given percentage (20 percent) of consumption.

8. Extend duty-free treatment to those textile and apparel items which are clearly no threat to the U.S. industry, such as hammocks, toy animals, exotic handbags, wall hangings etc. Some of these products were included in the original GSP in 1974. However, because a stricter definition was applied, they were not included in CBI. There is a precedent for such exceptions for specific products. In the version of CBI-II reported out of the House Ways and Means Committee, the domestic industry agreed to accept a list of fabrics in short supply which would be eligible for liberalized trade, even if not of U.S. origin. We believe it would not be difficult for the ITC or the trade community to identify these products. Technically they can be included by allowing ten digit designations and basket categories, or by breaking them out of current basket to permit designation.

SUGAR

9. Any modification of U.S. sugar policy should be consistent with the GATT. Should the U.S. adopt the tariffication of agricultural restrictions as a result of the Uruguay Round, AAEI urges that an appropriate level of CBI preference be guaranteed.

Prepared Statement of J. Paul Sticht

Mr. Chairman, Honorable Senators: My name is Paul Sticht, and I am here in my capacity as Vice Chairman of Caribbean/Central American Action, an independent non-profit organization that promotes private-sector-oriented economic development in the Caribbean Basin. The trustees who make up the Board of C/CAA include representatives of major U.S. firms that care about the future of the Caribbean Basin, as well as some of the most respected, forward-looking private-sector leaders of the Caribbean and Central American countries themselves. We come together in C/CAA out of the conviction that genuine economic development and broadly shared prosperity is possible for these societies, despite their serious problems of debt and poverty, and that the development of non-traditional enterprise in the manufacturing, agricultural and tourism sectors is the key to that progress.

In my own case, I have seen this potential firsthand. Until my recent retirement I served as chairman of RJR Nabisco, and presided over Del Monte's $35 million expansion of its pineapple operation in Costa Rica—the largest single agricultural project put in place in Central America before or since. In many ways it opened the door to the region's remarkable performance in non-traditional export agriculture in these last years.

In addition to my direct involvement in various RJR endeavors throughout the hemisphere, I had occasion to visit a number of Caribbean and Central American countries in late 1987 as part of a Caribbean/Central American Action leadership mission. The trip gave us an opportunity to meet with the region's government and private-sector leaders, to hear their accomplishments and concerns, and reassure them of the support and involvement of the American private sector. We also expressed our confidence that the commitment of the U.S. Government to an expanding CBI process was based on strong, bipartisan support, and could be counted on in

the region. It is with the same confidence that I, on behalf of C/CAA, approach this Committee today.

THE CBI—A VITAL STAKE

Six years ago the United States, recognizing its own vital stake in the prosperous and democratic future of its immediate neighbors in the Caribbean Basin, committed itself through the Caribbean Basin Initiative to helping these nations achieve these goals through a non-reciprocal and preferential access to the U.S. market. A wide-ranging commitment that included legislative action on various trade, aid and tax measures, as well as a variety of administrative initiatives not requiring legislation, the CBI had as its centerpiece a one-way free trade zone, granting participating countries of the Caribbean Basin duty-free access to the U.S. market for a period of ten years.

As proposed by President Reagan, the duty-free benefits would extend to all products except textiles, for which he promised to find ways of granting the region special benefits within the Administration's discretion under the existing Textile Agreements program. A major step in fulfilling this promise came when the Reagan Administration announced the Guaranteed Access program in 1986. However, exemptions of other major products built in by Congress when it passed the CBI legislation in 1983, as well as the continuing duty and quota restrictions on apparel products, have caused the CBI to fall far short of its promise of duty-free trade with the region. This is particularly true in that apparel and other excluded products represent some of the region's most promising export industries.

Experience under the CBI demonstrates both the basic soundness of its premises and at the same time the urgent necessity to correct its shortfalls and expand its benefits if the originally intended impact is to be achieved. This has been increasingly recognized within Congress over the last several years. Extensive study by the House Ways and Means Committee during 1986 and 1987, including hearings and a field mission by the Oversight Subcommittee, found that Caribbean Basin governments and private sectors were responding energetically to the new CBI-related opportunities, resulting in a burgeoning growth in non-traditional export industries. U.S. trade statistics confirmed that while the region had suffered a decline in its trade balance with the United States during the period—largely from falloff in petroleum and traditional agricultural commodities—the non-traditional sectors were advancing at a pace that could soon close the gap, bringing these economies the foreign exchange earnings and employment opportunities they so desperately need. The Subcommittee also found, however, that loss of the U.S. sugar market, exclusion of high-potential products such as apparel and footwear from CBI coverage, incapacitating infrastructural deficiencies and other problems were holding the CBI to a fraction of its potential. For many of the less-developed islands the promise of the program had barely made a dent, and throughout the region the precarious state of fragile economies raised the possibility that the CBI—unless reinforced by enhanced benefits and vigorous promotion—could prove too little too late.

Since then, Congressional awareness of this problem and willingness to act upon it has made steady progress. "Friends of the Caribbean" groups have sprung up in both the House and the Senate, counting a growing membership in both bodies. Bills introduced in 1987 in both Houses gained considerable support in their respective committees, but failed to advance in the last Congress only—it was widely believed—because of pre-empting attention demanded by the Omnibus Trade Bill and other major pieces of trade legislation. It was promptly reintroduced into the present Congress last year, and advanced as far as the House floor before the end of the first session.

The beginning of the 1990's finds the people of the Caribbean Basin tremendously encouraged by several indications of U.S. commitment to CBI enhancement—the strong bill developed by the House Ways and Means Committee last year, the President's November 17th memorandum mandating vigorous CBI implementation and enhancement efforts on the part of the Executive Branch, and the promise by this Committee of early action on CBI-II this year. It is vital to the interest of the United States that these hopes not be disappointed. I am therefore most gratified that this Subcommittee, true to the commitment of Chairman Bentsen, has called these early hearings to move forward on CBI enhancement.

STRENGTHENING THE CBI

From several years of study in and out of Congress, a strong consensus has emerged among friends of the CBI on the important steps needed to make it more effective. They include:

• Making the CBI's duty-free treatment of the region's products permanent rather than for a specified duration;
• Making enhancement of the region's tourism sector a major objective and instrument of the CBI;
• Providing preferential trade access for categories of products currently excluded from the CBI;
• Exempting CBI-origin products from the cumulation rule in cases of alleged dumping and illegal subsidization; and
• Providing increased U.S. market access to the region's sugar producers.

In the area of tourism, some of the proposed steps include increasing the duty-free allowances for tourists returning from the region, setting up an additional Customs pre-clearance program in a CBI country on a pilot basis, and expressing the sense of Congress that the U.S. Government should assign a high priority to projects and activities that develop and promote the tourism industry in the Caribbean Basin. These measures will go a long way toward reversing an embarrassing omission of the region's major foreign-exchange-earning industry from the scope of the original CBI.

One of the most critical—and controversial—of the proposed areas for CBI enhancement is the extension of CBI coverage to currently excluded products, the primary categories of which are textile and apparel products, leather goods, footwear, canned tuna, and petroleum products. Some of these—like apparel, footwear, and flat goods—represent major potential export opportunities for nearly every country in the region. Others, like petroleum, affect only a few countries, but, as in the case of the Netherlands Antilles, play an enormous role in those particular economies. While, in deference to the concerns of domestic industries, none of the current CBI enhancement proposals advocates 100% removal of all duties or quantitative restrictions from these presently excluded products, there is widespread agreement that some serious move to liberalize entry for these high-potential products is utterly essential if we are to maintain the momentum and credibility of the CBI.

A number of approaches have been suggested to implement greater coverage for excluded products. In the critical area of textiles products, where access is limited both by duties and by quotas, the idea is to build on some of the concepts used in the administrative Guaranteed Access program, which virtually exempts from quotas any apparel products made in a participating CBI country from U.S.-origin fabric also cut in the United States. Under present law, the value of the U.S. components in such a product is already duty-free, but the value added in the CBI country is dutiable. Key new elements would be:

• Expanding GAL eligibility by allowing use of non-U.S. fabrics if these are not produced in the U.S. or are considered scarce here;
• Exempting the entire GAL-eligible import (not just the value of the U.S. components) from duty.

In the case of presently excluded products other than textiles, that is, leather and other flat goods, footwear, canned tuna and petroleum, S. 504—Senator Graham's CBI-II bill presently before this Committee—proposes a tariff-rate quota system whereby all such products would be duty-free until they passed certain quantitative limits, after which they would be dutiable at current rates. Last year the House Trade Subcommittee, starting with a similar provision in the companion bill introduced by Representative Sam Gibbons and others, decided after consideration to substitute a somewhat different approach making all such products dutiable but at only 50% of current rates. We strongly endorse the intent and effect of either approach, namely, to grant the CBI countries preferential treatment for these products, without venturing an opinion as to which approach would accomplish it more appropriately.

A more serious question is what to do with a very important category of excluded product in danger of falling through the cracks of this legislation. I am referring to apparel products not eligible for Guaranteed Access Level treatment even under the expanded rules proposed in S. 504 and, with slight variation, in the House counterpart. These proposed liberalized GAL criteria make no allowance for garments whose fabric is not of U.S. origin, even in the case of fabric produced in the CBI country itself. As C/CAA pointed out to the House Trade Subcommittee last year, some form of duty relief for foreign-fabric products would be consistent with the type of duty concessions proposed for non-textile excluded products, and would recognize that the CBI apparel industry cannot be reliant on fabric from just one source. Government and private-sector leaders from the region have long pointed out that their potential for genuine development of a vertically integrated apparel industry, capable of earning and retaining more than a fraction of the value of

goods sold, is severely restricted by U.S. trade policies that in effect relegate them to assembly work.

Greatly to its credit, the Subcommittee and subsequently the full Ways and Means Committee of the House had the courage to deal with this issue, and did so by including non-GAL apparel goods in its overall 50% duty reduction for otherwise CBI-excluded products. Unfortunately, in the final days of the session both apparel and footwear were dropped from that provision under pressure from domestic interests. We are convinced, however, that the Caribbean Basin has much to gain and U.S. industry very little to lose in this modest concession, and we urge you to give it every serious consideration.

This is a new decade and a new year, though fortunately for the momentum of this process not a new session of Congress. We urge this Committee in fashioning the final language of the CBI bill you will send to the Senate floor, to look at the entire range of CBI enhancement proposals those found in S. 504, those developed by the House committee, and any new ones brought forward during these hearings and your own study with a view toward incorporating the most inclusive and generous provisions of each, thereby sending the strongest possible message of recommitment to the Caribbean.

It is our own view that the areas of controversy in the CBI-II proposals—while not to be discounted—have steadily diminished and can be resolved. The reservations on tourism promotion that posed a major constraint several years ago have been overcome. Technical concerns that once posed a major hindrance for the Executive Branch have been largely resolved in the case of cumulation, and we believe that will be true of the sugar proposal as well, as advocates have worked hard to come up with a modified approach that would be GATT-legal while giving the region's exporting countries the minimum guarantees they need.

The compromise reached last year in the once-controversial area of ethanol demonstrates that the concerns of domestic industry groups can be acknowledged and accommodated without selling our friends in the Caribbean Basin down the river. We recognize that in the areas of apparel and footwear, particularly, fear of imports is a potent force, and an array of groups can be expected to come forward to oppose any attempt at liberalizing access. At the same time, we are convinced that the quantities of products that the CBI countries are likely to produce, even in these sensitive categories, would not in fact significantly threaten U.S. industries or jobs in those sectors. In many cases, when U.S. firms undertake Caribbean co-production as an alternative to sourcing product elsewhere in the world or letting overseas competitors drive them out of business, the result is that at least some U.S. jobs are preserved and—if the company holds its own and grows—others are even created. C/CAA has commissioned a small booklet bringing together data to support this statement, and we hope to have it in your hands before markup is complete. Given these facts, we believe that it should be possible to reach an understanding with the concerned groups, which would result—as in the case of ethanol—in compromise language that all sides could agree meets their needs. C/CAA stands ready to assist in this process in any way we can.

For your part, it is essential that this Committee encourage reasoned dialogue and openness to compromise on the part of all parties interested in the various product categories, by honoring the fruit of such a process in the case of ethanol. The understanding reached last year called for the compromise statutory provisions-setting workable levels for duty-free importation of ethanol dehydrated in CBI countries—to remain applicable for the life of the CBI. It was critical for the ethanol change to be enacted in 1989 even if no other CBI measure moved forward, because without the relief it granted, onerous regulations set to take effect as of the new year, 1990, would have shut down the region's entire ethanol industry. Congress met the challenge of the emergency deadline, but at the 11th hour cut the permanent duration to two years. Since nothing had intervened to change the facts on which the compromise had been reached, good faith requires that Congress restore its agreed intent by enacting new language making the 2-year benefits permanent.

With this model as an incentive, and with good will on all sides, C/CAA believes that far-sighted, courageous leadership from this Committee will gain for a strong, comprehensive CBI-II bill the acquiescence, if not the endorsement, of the U.S. and Caribbean Basin business communities most affected. The possibility is certainly worth your very best effort.

HOPE FOR THE 90'S

The present time is a vital moment for the future of democracy and the role of U.S. leadership in the Caribbean Basin, as elsewhere in the world. At no time since the CBI was inaugurated has there existed so much promise for the emergence of a

politically and economically viable community of small nations around our southern border as is the case today.

In Central America a series of presidential elections—last year, this year, and coming up—show the democratic process to be alive and well in El Salvador, Honduras, Guatemala, and, of course, Costa Rica. The current campaign in Nicaragua, whatever its outcome, will leave a much-changed and, I believe, much-improved situation from the one-party rule that characterized the Sandinista regime of the 1980's. The successful intervention in Panama has set that country back on the path to economic and political recovery after the tragic aberration of the Noriega years. Throughout Central America, the prospect that genuine peace might emerge in a resolution of the armed conflicts in El Salvador Nicaragua after so many years—however precarious that hope may be—has breathed new life into both political and business circles, leading to renewed discussion of how to regenerate the once-thriving Central American Common Market.

In the Caribbean Islands, perhaps more quietly but even more profoundly than in Central America, the 1980's have been a time of consolidated commitment to functioning democracy in the face of severe economic stresses. With the tragic exception of Haiti, and of course Cuba, these societies have shown that their democratic institutions—whether long-held as in the case of Jamaica or more recently achieved as in the case of the Dominican Republic—offer the resiliency needed for changing parties and ideologies, not just personalities, through the electoral process.

On both sides of the Caribbean Basin, political leaders backed up by their electorates have committed their nations firmly to the path of private-enterprise-oriented development, bringing with it the hope for eventually achieving genuine prosperity through their own productivity and participation in the global economy. Throughout the region, privatization is ridding governments of expensive, inefficient bureaucracies while opening up new sectors for creative entrepreneurship. A new generation of business leadership has replaced inward-looking defense of narrow interests with a new, forward-looking vision of the leadership responsible enterprise can bring to its society. All this makes for a time of great economic possibility and expectancy throughout the region.

It would, however, be a profound mistake to believe that Central American and Caribbean countries have safely navigated the economic, financial, political and institutional crises of the last two decades, and are ready to sink or swim on their own, without assistance. Many of the less developed islands are still barely able to take advantage of CBI opportunities without receiving the infrastructural and other forms of direct assistance they so badly need—making it important to include in this legislation some form of mandate to address those needs. On a broader scale, all countries of the region, from the largest to the smallest, are very small by world standards. To participate effectively in the global trading economy, they need, indeed, better economic management internally as well as better integration as a region. But they also need, and will continue to need for some time, and are--we believe—entitled to expect, the special help and support of their largest neighbor, fellow democracy, and chief trading partner—the United States.

This is a time of great change and hope for democracy worldwide. As global developments strain aid resources and compete for policy attention here in Washington, it is more important than ever that the U.S. demonstrate its commitment to the Caribbean Basin—this critical group of friendly countries around our own borders—by fulfilling our promise of preferential market access through the Caribbean Basin Initiative. Thank you.

COMMUNICATIONS

STATEMENT OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

This is in response to the request for comment on proposals to amend the Caribbean Basin Initiative legislation issued by the Finance Subcommittee on Trade on January 26, 1990.

The American Apparel Manufacturers Association is the central trade association for U.S. apparel manufacturers with members in virtually every state. Among our members are many companies which operate in the Caribbean, Central America and Mexico, both under Section 807 and 807a.

Even though we opposed the Caribbean Basin Economic Recovery Act in the last Congress, AAMA has decided not to oppose it this year. This decision was made for several reasons: (1) The current bill requires the garment parts to be cut in the United States; (2) The bill recognizes the need for use of foreign fabric in certain limited instances; (3) The program is limited to 807a.

There were, however, several amendments raised during the House Ways and Means consideration of the bill which are of concern to AAMA.

We were and remain strongly opposed to any amendment which would reduce duties on non-807 imports which are under specific quota limits. The Caribbean already enjoys significant trade advantages over the rest of the world and S. 504 adds to those advantages. About 80 percent of garments imported from the 21 CBI countries enter the United States under Section 807 or 807a. Duty is paid only on the value added in the Caribbean, an average of 40 percent of the wholesale value of the goods. Thus, while the regular 20 percent duty on a $5 garment would be $1, the duty on that garment under 807 is only 40 cents. With the large volumes involved in apparel trade, the savings to the Caribbean are more than significant. S. 504 would remove that 40 cent duty from 807a goods, making the garment even more competitive. Since 807a also is essentially free of quota, there will be an even added incentive to move into that program and out of regular imports or the 807 program. With wage rates that are comparable to the Far East and with much lower shipping costs, the CBI countries have a significant cost advantage which does not need to be increased by further duty reductions.,

It also should be pointed out that duties on apparel are on the table during the Uruguay Round and could be reduced by as much as 50 percent. Duties on apparel somewhat offset wage differentials between the United States and less developed countries. We cannot afford to have that offset eaten away a piece at a time.

Likewise, and for many of the same reasons, we oppose an amendment which would grant duty-free status to garments cut and sewn in the Caribbean of fabric formed from cotton grown there.

The Caribbean is a very significant source of raw cotton. Over the last five years, cotton production in the Caribbean has averaged 335,000 bales with 480 pounds of cotton in each bale. That is enough cotton to overwhelm the U.S. market in a number of products. For instance, there were 7.9 million dozen men's shirts manufactured in the United States in 1987. The cotton content of those shirts was 77,700 bales. The CBI without the added incentive of this amendment already produces nearly five times as much cotton as is contained in all the shirts made in the United States.

This also creates a great incentive for fraud since the origin of raw cotton is very difficult to determine once it is woven or knit into fabric. Customs, already overburdened and understaffed, would have a difficult time policing this program. The result would be that the Caribbean would be a most attractive route for garments transshipped from other countries.

Also the 807 and 807a programs require the garment parts to be cut in the United States and S. 504 retains that requirement. This is vitally important to us because it

helps assure that U.S. garment manufacturers have a role to play in Caribbean production. This amendment eliminates that role.

We believe that S. 504 should allow the use of some foreign fabrics in the 807a program, provided that the fabric is not available in the United States.

Many of our members manufacture in beneficiary countries under the 807a program. They make products ranging from men and women's shirts, blouses and slacks to lingerie. Many of these products require certain fabrics which no longer are made in this country. To deny these companies the use of third-country fabric in 807a is to deny them access to the 807a program itself.

The version of S. 504 reported by the Ways and Means Committee contained a list of nine fabrics which would be eligible for 807a even though they are not manufactured in the United States. That list, which is attached, was developed jointly by the American Textile Manufacturers Institute and the AAMA. It differs from the version in the Ways and Means bill only in that it contains a more accurate description of fabric number five.

FOREIGN FABRICS ELIGIBLE FOR G.A.L. TREATMENT UNDER H.R. 1233

1. Broadwoven fabrics containing 85% or more by weight of silk, weighing more than 100 grams per square meter, covered by HTS headings 5007.10.30, 5007.20.00 and 5007.90.30 (additional statistical headings required).

2. Velveteen fabric, 85% or more by weight of cotton covered by HTS heading 5801.23.00.00.

3. Corduroy fabric, 85% or more by weight of cotton, containing more than 34 threads per square centimeter covered by HTS heading 5801.22.00 (statistical heading required).

4. Broadwoven fabrics of cotton of average yarn number greater than 120 metric count, covered by HTS headings 5208.21.60, 62.08.29.80, 52.08.31.80, 52.08.39.80, 5208.41.80, 5208.49.80, 5208.61.80 and 52.08.59.80 (additional statistical headings required).

5. Circular knit jersey fabrics wholly of cotton of average yarn number greater than 100 metric count, covered by HTS 6002.92.00 (statistical heading required).

6. Broadwoven fabric, 85% or more by weight of wool, certified as being genuine Harris Tweed, covered by HTS heading 5111.19.20, 5111.19.60 (additional statistical headings and chapter headnote required).

7. Broadwoven Oxford fabric, chiefly cotton, weighing not more than 200 grams per square meter, colored, covered by HTS headings 5210.39.40.20, 5210.39.60.20 and 5210.39.80.20.

8. Less than 85% wool containing fine animal hair and synthetic fibers less than 400 grams per square meter.

9. Broadwoven fabric 85% or more by weight of continuous synthetic yarn entered under HTS headings 5407.71.00, 5407.72.00, 5407.73.20 and 5407.74.00, of polyester, weighing not more than 100 gm/m^2, containing more than 50 threads percm.^{2}. (Additional statistical headings required.)

STATEMENT OF THE AMERICAN CORDAGE AND NETTING MANUFACTURERS

I. INTRODUCTION

This position paper is submitted in response to Press Release No. H-5 of the Committee on Finance of the United States Senate which requested written comments be submitted to the Subcommittee on International Trade regarding "Caribbean Basin legislation." The American Cordage and Netting Manufacturers (ACNM), an incorporated non-profit association dedicated to a strong American Industry represents manufacturers of cordage (rope, twine and cable) and netting together with their suppliers throughout the United States. ACNM feels strongly that this industry is being severely economically affected by the use of the CBERA program in a manner not intended by Congress at the time the legislation was enacted. Therefore ACNM urges this Subcommittee to use care in the formulation of any legislative proposals affecting the CBERA program to ensure the program is administered in such a way that U.S. industries are not negatively impacted contrary to the intention of Congress.

II. BACKGROUND

For previous rounds of consideration, ACNM has submitted comments based upon Tariff Schedules of the United States (TSUS) misclassifications of textile products as non-textile encouraged by the operation of the Caribbean Basin Initiative (CBI). The

statistics for the one year of imports under the Harmonized Tariff Schedules of the United States (HTSUS) indicate that some of these problems may have been somewhat abated by the conversion to the new system of nomenclature which included these products as the textiles they are. There are, however, underlying problems and concerns highlighted by the continuing difficulties which ACNM feels should be addressed in any review or reconstruction of the legislation.

ACNM's concerns with the CBI program are primarily focused on shipments of polyolefin cordage products (See list, Attachment A) which are properly classified as textiles but in some instances enter as duty free items under the Generalized System of Preferences or the CBI. ACNM fears that if care is not taken, such products as these and any others which received hybrid (half textile; half non-textile) status as the result of the conversion of the TSUS to the HTSUS or any which are similar to them in nature will be given full CBI status under any broadening or rewriting of the initiative which may take place.

We are not discussing products which are fairly traded in international markets, but products which are sold into the United States demonstrably at less than their cost of production. To reward such unfair trade practices by providing CBI benefits to these textile imports would be to add insult to the injury this industry is now receiving. ACNM does not oppose the CBI program as such but strongly opposes the abuse and misuse of the program for purposes other than those intended when the program was enacted.

III. THE PROBLEM

As USTR Hills noted in her February 9, 1990 testimony on this topic before this Committee, we should be helping our neighbors get to their feet. BUT not by bringing domestic industry to its knees. Imports aided by the program should be those specified by the program and those specifically exempted from the program should be exempted. Cordage and netting are textiles. As textiles, imports of these products should not benefit from the CBI program as it is currently constructed. This exemption should be clear and devising special categories within the textile schedules to benefit from the program should not be an option for importers.

Yet this is exactly what has taken place in the case of polyolefin cordage. Prior to the adoption of the HTSUS some parties argued that certain polyolefin cordage was actually classifiable as plastic strip and should, as a plastic, be eligible for GSP duty-free treatment and CBI benefits. Customs in a classification decision (See T.D. 85-183, *Fed. Reg.* Nov. 4, 1985) found this cordage to be textiles. The adoption of the HTSUS placed this cordage in the textile category where it belonged but, apparently inadvertently, left the GSP and tariff status of plastic strip applying to it. There is *no valid reason* for this eligibility on a product which is clearly a textile. ACNM is working vigorously to correct this apparent inadvertence.

Meanwhile, however, ACNM must be alert to the possibility that importers will attempt to have the inadvertent non-textile tariff treatment extended by making similar product categories eligible for CBI benefits. Any liberalization of the provisions or attempts to expand the range of eligible products must be carefully constructed so as not to reward those who trade unfairly (by selling goods at less than cost of production) in the United States market.

Let us take as an example other (than binder/baler twine) cordage of "wide nonfibrillated strip" classified under HTSUS 5607.49.10. [Note: Domestic industry currently has a petition before the Customs Service, supported by technical documentation which establishes such cordage cannot exist. Cordage of uniaxially oriented isotactic polypropylene is fibrillated; you cannot manufacture cordage of "wide nonfibrillated strip."] Meanwhile, entries are being made under this designation and are eligible for GSP and CBI benefits. During 1989 ⅔ of the imports from Costa Rica under this item number availed themselves of GSP eligibility (See Table, Attachment B). Shipments from Costa Rica under this item total led only 2% of imports but the real fear is that of extension. As long as this eligibility exists (however wrongly) for CBI benefits to apply to textiles ACNM fears attempts will be made to extend it to similar products.

By far the bulk of shipments of any products within this group from Costa Rica are classified under 5607.49.15, other polyethylene/polypropylene cordage of diameter less than 4.8 mm. This product is entered at prices which are demonstrably lower than the cost of production. The summary graph 1 in Attachment C illustrates the problem. Costa Rican polyolefin cordage is manufactured from U.S. resin. This resin is exported (generally from Houston) so we have listed spot prices for 1989 in Table I of Attachment C and graphed them as the bottom line on graph 1. We have listed the dollar value of 1989 imports of this product from Costa Rica in Table 2 of Attachment C and overlayed them on the same graph 1 where they lie

just above the line demoting resin prices. For reference we have had industry experts estimate the cost to produce small diameter cordage from polyolefin by adding the cost of dye, stabilizers, processing and shipping. The top line on graph 1 illustrates the estimated cost of production. The area between the line representing import cost and the line representing estimated cost of production equals the margin of underselling of this product. (Shipments of this product are included in the 259 percent increase in non-traditional exports noted by USTR Hills.)

To add perspective to this problem we have also prepared exhibits relating the import price of this cordage from Costa Rica to that of imports from all other countries. Table 1 of Attachment D compares the quarterly unit values of shipments from Costa Rica to those from all other countries. As a quick comparison of the figures will show, Costa Rican prices were 40% below those of all other countries in the first quarter. The depth of the problem can be seen by comparing graphs 1 and 2 of Attachment D which illustrate the percentage accounted for by Costa Rican shipments of the volume (34%) and value (26%) respectively. Unquestionably this large volume of less than cost of production sales is injuring U.S. industry.

Another concern of ACNM is the potential for circumvention of the origin requirements from CBI countries. Country of origin requirements for textile and other products of CBI-eligible countries have been established to ensure that goods are not transshipped through the Caribbean Basin benefit eligible countries. We note some surprising entries in the U.S. official import statistics for last year, however. Most notable among these items is a monthly total (August) of 18,647 kg of cordage of "wide nonfibrillated strip" (HTS 5607.41.10—binder/baler twine of polyethylene/polypropylene) (See Note supra) from Honduras, a country which has not previously shipped this or any similar product into the United States and is believed by industry experts to have no facilities capable of producing a binder/baler twine of polyethylene or polypropylene.

Some type of effective watchdog system must be made a part of any reconsideration of the program. Odd shipments such as this should be investigated by Customs especially when, as in this case, they receive CBI benefits despite the fact they are textiles.

IV. SUMMATION

ACNM views these imports with growing concern. ACNM feels very strongly the CBI program should include a watchdog mechanism to ensure imports encouraged by the program are fairly traded under both U.S. law and GATT rules. Importers should have to declare, under penalties of fraud, that goods entered under CBI preference are entered at a price greater than their cost of production and that they meet country of origin criteria. Importers should also have to provide, under strict confidentiality, documentation of costs and verification of origin to Customs upon request. Such a request should be made by the Customs fraud section any time it is made aware of prima facie evidence from the public record or otherwise, that less than cost of production or non-origin entries are being made.

Attachment.

ATTACHMENT A

HTS Subheading	Product Description	
5607.41.10	Polyethylene or polypropylene binder or baler twine, of "wide nonfibrillated strip"	
Rates of duty:	General	5.3%
	Special	Free (A,E,IL); 4.2% (CA)
	Column 2	80%
5607.41.30	Polyethylene or polypropylene binder or baler twine	
Rates of duty:	General	8%
	Special	3.2% (IL); 6.4% (CA)
	Column 2	76.5%
5607.49.10	Other polyethylene or polypropylene cordage and twine, of "wide nonfibrillated strip"	
Rates of duty:	General	5.3%
	Special	Free (A,E,IL); 4.2% (CA)
	Column 2	80%
5607.49.15	Other polyethylene or polypropylene cordage and twine, not braided or plaited, measuring less than 4.8mm in diameter	
Rates of duty:	General	8%
	Special	3.2% (IL); 6.4% (CA)
	Column 2	76.5%
5607.49.25	Other polyethylene or polypropylene cordage and twine, not braided or plaited, measuring 4.8mm or more in diameter	
Rates of duty:	General	27.6 cents/kg + 15%
	Special	11 cents/kg + 6% (IL); 22 cents/kg + 12% (CA)
	Column 2	27.6 cents/kg + 76.5%
5607.49.30	Other polyethylene or polypropylene cordage and twine, braided or plaited	
Rates of duty:	General	7.2%
	Special	2.9% (IL); 5.7% (CA)
	Column 2	60%
5607.50.20	Cordage and twine of synthetic fibers other than polyethylene or polypropylene, not braided or plaited	
Rates of duty:	General	27.6 cents/kg + 15%
	Special	11 cents/kg + 6% (IL); 22 cents/kg + 12% (CA)
	Column 2	27.6 cents/kg + 76.5%
5607.50.40	Cordage and twine of synthetic fibers other than polyethylene or polypropylene, braided or plaited	
Rates of duty:	General	7.2%
	Special	2.9% (IL); 5.7% (CA)
	Column 2	60%
5607.90.20	Cordage and twine of other than synthetic fibers, jute, sisal, abaca, coir, or other hard (leaf) fibers	
Rates of duty:	General	7.2%
	Special	Free (E*); 2.9% (IL); 5.7% (CA)
	Column 2	40%

Rates of Duty Key
General: Most-Favored-Nation
Special: GSP (A,A*); CBI (E,E*); U.S.-Israel FTA (IL); U.S.-Canada FTA (CA)
Column 2: Soviet Bloc nations

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ATTACHMENT B

U.S. Cordage Imports from Costa Rica: 1989
(HTS Subheading 5607.49.10)

	Quantity (kilos)	Customs Value	Unit Value	Import Regime
JAN	0	$0	$0.000	
FEB	0	0	0.000	
MAR	0	0	0.000	
APR	20,425	27,873	1.365	MFN
MAY	19,809	26,647	1.345	GSP*
JUN	19,391	26,140	1.348	GSP
JUL	0	0	0.000	
AUG	0	0	0.000	
SEP	0	0	0.000	
OCT	0	0	0.000	
NOV	0	0	0.000	
DEC	0	0	0.000	
Totals	59,625	$80,660	$1.353	
Total MFN	20,425	$27,873	$1.365	
Total GSP	39,200	$52,787	$1.347	

* The reason for this sudden use of GSP is unclear, but the timing would coincide with the decision of the Court of Appeals for the Federal Circuit affirming Madison Galleries v U.S, (appeal No. 88-1559, March 8, 1989).

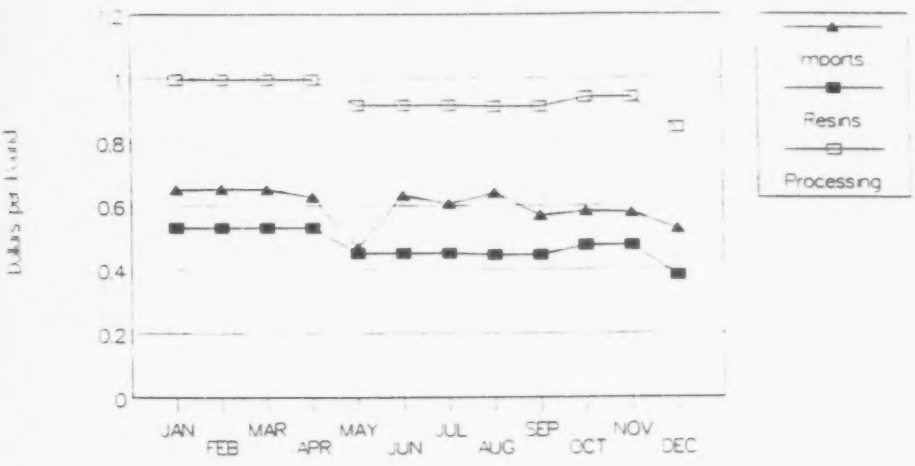
Source: U.S. Department of Commerce

Leighton and Regnery
February 1990

ATTACHMENT C
GRAPH 1

U.S. Imports of Costa Rican Cordage

Cost Comparison of 1989 Shipments



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February 1990

ATTACHMENT C
TABLE 1

Spot Prices of Polypropylene Resins (GP Injection)
Monthly Ranges and averages, 1989
(all figures in cents per pound)

Month	Range	Average
JAN	52 - 54	53.0
FEB	52 - 54	53.0
MAR	52 - 54	53.0
APR	43 - 54	48.5
MAY	43 - 47	45.0
JUN	43 - 47	45.0
JUL	43 - 47	45.0
AUG	42 - 47	44.5
SEP	42 - 47	44.5
OCT	40 - 45	47.5
NOV	40 - 45	47.5
DEC	37 - 39	38.0

Source: The Journal of Commerce

ATTACHMENT C
TABLE 2

U.S. Imports of Cordage from Costa Rica
By Month, 1989
(HTSUS 5607.49.15)

Month	Kilograms	Customs Value	Unit Value
JAN	20,425	$29,270	$1.433
FEB	20,362	29,253	1.437
MAR	0	0	0.000
APR	39,499	54,581	1.382
MAY	102,961	106,345	1.033
JUN	19,260	26,856	1.394
JUL	38,782	51,728	1.334
AUG	38,718	54,595	1.410
SEP	19,391	24,316	1.254
OCT	38,687	49,653	1.283
NOV	38,305	48,765	1.273
DEC	61,455	71,379	1.161
Totals	437,845	$546,741	$1.249

Source: U.S. Department of Commerce

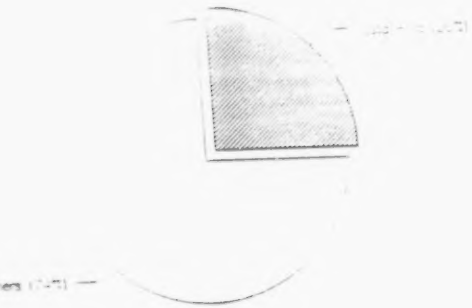
Leighton and Regnery
February 1990

ATTACHMENT D
GRAPH 1

1989 U.S. Cordage Imports: Volume
HTSUS 5607.49.15

ATTACHMENT D
GRAPH 2

1989 U.S. Cordage Imports: Value
HTSUS 5607.49.15



Source: U.S. Department of Commerce

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February 1990

ATTACHMENT D
TABLE 1

U.S. Imports of Cordage from Costa Rica: HTSUS 5607.49.15
Unit Value Comparison by Quarter, 1989
(all figures in dollars per kg)

Quarter	Costa Rica	All Others
I	$1.435	$2.374
II	$1.161	$2.147
III	$1.348	$2.045
IV	$1.226	$1.895

Source: U.S. Department of Commerce

Leighton and Regnery
February 1990

STATEMENT OF THE AMERICAN IRON AND STEEL INSTITUTE

This statement on S. 504, legislation to amend the Caribbean Basin Initiative (CBI), is submitted to the Senate Finance Committee on behalf of the domestic members of the American Iron and Steel Institute (AISI), who account for approximately 80 percent of the raw steel produced in the United States.

AISI supports the goal of promoting economic development in CBI countries. We believe, however, that economic development abroad should be based on expansion of normal market forces. It should not encourage or rely upon subsidization or dumping.

The Administration has announced that the domestic steel industry will have to rely on U.S. trade laws alone to solve unfair trade problems after March 31, 1992 (when steel VRAs are set to expire). Accordingly, AISI takes very seriously any proposed changes in U.S. trade laws that would weaken current law in way. That is why, while AISI takes no position on other Sections of S. 504, we *strongly oppose* Section 8 of this legislation.

Section 8 would provide a special and unwarranted cumulation rule for CBI countries whose unfairly traded imports are subject to investigation in antidumping (AD) and countervailing duty (CVD) cases. Instead of requiring cumulation of unfairly trade imports from CBI countries (subject to investigation) with unfairly traded imports from non-CBI countries (subject to investigation) as current law mandates, it would only permit cumulation of unfairly traded CBI imports as a group.

This special rule--and special treatment—flies in the face of the logic of cumulation (i.e., one cumulates precisely because unfairly traded imports from very small *individual* suppliers can have a *collective* "hammering effect"). It is contrary to the views expressed by Congress when it enacted the cumulation provision in 1984. It would weaken this provision and set a dangerous precedent that could lead to still further dilution. In addition, it isn't necessary because current law (the Omnibus Trade and Competitiveness Act of 1988) already provides a cumulation exception in cases of truly "neglible" imports that do no harm to domestic producers. Section 8 would cause further unwarranted injury to domestic steel in particular, given the unfair trading history and present capacity to export of the state-owned Iron and Steel Company of Trinidad and Tobago (ISCOTT). Lastly, it is totally contrary to the aim of U.S. GATT Round proposals on anti-circumvention and diversion, because it would encourage CBI operations designed to evade or circumvent U.S. AD/CVD orders.

Given these serious problems with Section 8 of S. 504, AISI wishes to go on record in strong support of the recent statement on S. 504 submitted on behalf of U.S. wire rod producers (Armco Inc., Bethlehem Steel Corporation, Georgetown Steel Corporation, North Star Steel Texas, Inc., Northwestern Steel & Wire Company and Raritan River Steel Company). We ask the Committee to preserve and, if possible, strengthen U.S. antidumping and countervailing duty laws. Because Section 8 would make our unfair trade laws *less* effective, we urge the Committee to delete this section of the bill.

AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.,
Washington, DC, February 26, 1989.

Hon. LLOYD BENTSEN, *Chairman,*
Senate Committee on Finance,
Dirksen Senate Office Building,
Washington, DC,

Re: Caribbean Basin Initiative—Comments

Dear Mr. Chairman: Per the requirements of Finance Committee Press Release No. H-5, the American Textile Manufacturers Institute (ATMI) would like to take this opportunity to submit comments for the hearing record on the proposed Caribbean Basin Initiative (CBI) expansion bill.

ATMI is the national trade association for the domestic textile industry Our member companies operate in more than 30 states and account for approximately 75 percent of all textile fibers consumed by mills in the U.S. We sincerely wish to join in the effort to provide increased opportunities for our neighbors in the Caribbean. At the same time, we believe such opportunities must not come at the expense of the American textile industry and its employees. In the event that the Committee does include provisions in the bill affecting textiles, we would like to make the following suggestions for such a section.

First of all, if textiles are addressed in the bill, ATMI feels strongly that the Committee should include language granting duty-free treatment under the 807-A program to those articles assembled or processed in CBI countries wholly of U.S. components or ingredients. Such a provision was included in the original CBI expansion bills introduced last year in congress. ATMI believes that this would be extremely beneficial to the Caribbean economies by improving an already successful program. It would also present increased openings for U.S. textile manufacturers to sell fabric in the region.

Second, ATMI feels that the fabric availability provisions for exemption from the qualification requirements under 807-A, which were contained in the CBI bills as introduced last year, are unworkable and must be replaced with a specific list of seven fabrics not made in the United States, which we have provided to the Committee. Without a specific list of these seven fabrics, the "critical shortage" language in the bill is simply too vague and could be abused by those seeking to circumvent the provision's intent.

Third, ATMS believes any CBI legislation affecting textiles which may be approved by the Committee must provide for offsetting any resultant increases in Caribbean imports with corresponding decreases in imports from other major foreign suppliers. The American textile industry is being badly hurt by record import penetration of the U.S. market. An import-neutral offset provision would prevent further market disruption, thereby keeping our industry's position from deteriorating further and causing additional dislocation among American textile workers. Additionally, an offset could achieve these important domestic objectives while still providing greatly improved economic opportunities for those Caribbean countries we wish to aid.

Finally, ATMI is adamantly opposed to any effort to reduce duties on imports of CBI apparel made from non-U.S. fabric and subject to import quotas. This would only aggravate our textile and apparel import problems, to the detriment of the domestic industry and our employees. I should point out that such a duty reduction would not so much help Caribbean firms and their workers as it would actually benefit other foreign interests, primarily Far Eastern, who would increase their presence in the Caribbean, using non-Caribbean fabric. Accordingly, we ask that you vote against any amendment to include such a damaging provision in the CBI bill.

Without the changes described above, ATMS will have no choice but to oppose enactment of CBI legislation. We hope this information will be helpful to you in considering how to make this proposed initiative accomplish its worthwhile objec-

tive without causing unnecessary harm to the American textile industry and the loss of American jobs.

Sincerely,

CARLOS MOORE, *Executive Vice President.*

STATEMENT OF THE CBI EMBASSY GROUP

This testimony is submitted by the CBI Embassy Group, which represents the diplomatic missions of CBI-beneficiary countries in the United States. It contains our viewpoints in support of legislation presently being considered by the Committee on Finance of the United States Senate, desi8ned to enhance and strengthen the Caribbean Basin Initiative (CBI).

The trade benefits of the CBI program represent a vital component in the region's struggle to achieve a certain measure of self-sustained growth, a basic complement to the current efforts to achieve political stability in the various countries. The above-mentioned legislation recognizes the necessity to promote economic development in Central America and the Caribbean, and addresses several key areas that are very important in terms of employment generation, foreign exchange earnings and productivity. Through increased trade opportunities, the United States can help the region to improve its standard of living, while at the same time lessening dependence on aid. It is even more important in light of:

(A) A significant reduction in economic assistance from the U.S. to the region as a consequence of budgetary restraints and massive requests for aid to emerging democracies in Eastern Europe.

(B) Considerable erosion of preferences to the region including CBI I and II, GSP and Most Favoured Nation treatment. This occurs as other regions are moving towards comprehensive free trade agreements of wider scope, and as the socialist countries move from the column II rate to a MFN treatment.

As more countries receive increased benefits, the relatively favourable trade preferences of the CBI Region become diminished, making the countries less and less competitive in the U.S. market.

REPEAL OF TERMINATION DATE FOR CBI BENEFITS

Paramount among the provisions under consideration is the repeal of the CBI's termination date, which would extend the program's benefits permanently. This would guarantee that the economic diversification brought about since CBI's inception will continue to make the region's economies more solid and productive. Currently, beneficiary countries are beginning to see the results of their efforts to promote exports to the United States. It is crucial that they can count on the safeguard that their hard work will continue to reap results so they can proceed ahead with certainty. In addition, this assurance constitutes a real incentive for investment in the region, particularly for strong, long-term commitments. Foreign investors could plan with full knowledge of the advantages they can enjoy and of the factors which influence their business decisions.

CUMULATION

Turning to the substantive provisions of the legislation, we must stress the importance of the provisions on cumulation in trade injury cases. It is essential to recognize the Caribbean Basin's productive capacity by establishing the principle that beneficiary countries cannot be globally cumulated, except with each other, thereby avoiding a repetition of the infamous Costa Rican cut flower case and providing an important safeguard for private sector entrepreneurs. It is unfair to categorize CBI suppliers with those large-scale producers whose market penetration is substantial, since the region's industrial production in many sectors is yet incipient and represents no injury or threat whatsoever. Claims that the area will grow by leaps and bounds and therefore pose a problem for U.S. industry have not been supported by factual evidence. In fact, many product categories have decreased or remained steady.

SUGAR

Sugar is the number one or two source of exports, foreign exchange and employment for most of the CBI countries. Thus, part of the reason why CBI has not yet achieved the expected success, is the amount of export value and jobs lost in the region because of the drastic U.S. sugar quota reduction since 1983. The over 70% aggregate cut has more than offset the general benefits. Throughout the debate, CBI

sugar exporting countries have consistently and constructively worked to propose a solution that is just and that minimizes the quota loss. As we all know, a distorted and residual world market could hardly have been considered profitable.

Just two weeks ago in Guatemala City, the CBI Sugar Group hosted a meeting with U.S. sugar beet, cane producers and refiners, to exchange ideas regarding CBI II legislation and the upcoming Farm Bill. There is support for a guaranteed access level in CBI II. During its recent visit to Washington, the CBI Sugar Group met with key members of Congress and staff, especially the committees of agriculture, of both House and Senate, as well as the Senate Committee on Finance. It requested that the sugar provision in H.R. 1233 be included in S. 504, but with a floor of 515,000 MTs, instead of 371,449 MTs, in order to reflect the current sugar quota access level for the CBI sugar exporting countries. A precedent already exists for providing the CBI region with a minimum sugar import quota. During the Tokyo Round in 1978, the U.S. provided Australia with a minimum meat import quota. The complement of this idea is the establishment in the Farm Bill of a minimum access level for all offshore suppliers in the amount of 1,447.000 MTs. for the first year and gradually phasing in demand increases until reaching a level of 2.0 Million MTs, to be consistent with Sec. 22. We believe this solution would be in accordance to GATT, since it upheld the waiver for Sec. 22, thus providing a legal basis for the U.S. sugar quota.

In perspective, there seems to be wide acceptance in the Senate and House Agriculture Committees that the new Farm Bill will be drafted long before the expected conclusion of the Uruguay Round negotiations. Hence, one cannot anticipate whether some of the provisions in the Farm Bill or the CBI will be challenged in GATT. If this occurs, but only then, the CBI II sugar provision can be reconsidered and amended if necessary. It should be clearly understood that the CBI Sugar Group strongly supports the objectives of the Administration in the GATT negotiations, with the purpose of eliminating trade distortions in the world sugar market, since a sugar market free of heavily subsidized sugar will not be the dumping market that it currently is. The CBI countries are efficient sugar producers and would benefit from a free world sugar market. Our governments are prepared to work closely with the U.S., the E.E.C. and other interested parties in achieving this goal.

DUTY-FREE TREATMENT FOR EXCLUDED PRODUCTS

Textiles and apparel, representing perhaps the most viable light manufacturing and labor intensive export sector for the region, were excluded from CBI as sensitive products due to the false perception that these CBI imports would create market disruption. Today, six years later, there is no tangible evidence to that effect. Textiles, therefore, remain on our list of priorities for the CBI-II legislation. The region would receive a boost if this sector were included in the CBI, particularly emphasizing areas like the "807" program, where growth in the region is directly linked to more business for U.S. textile mills. Furthermore, Duty-free treatment is desirable for textile and apparel items which pose no threat to the U.S. industry, such as hammocks, stuffed animals, pot-holders, bags, etc. This would significantly aid the beneficiary countries. Since our industries are either non-competitive or complementary, there is no justification for the fate which befell this aspect of the legislation in the House of Representatives.

Footwear is another sector where duty-free treatment could assist the region. Again, there is little likelihood that any market disruption could occur, or that any U.S. industry would be affected, given the Caribbean Basin's known minimal productive capacity. The result would be a shift of operations by manufacturers from the Far East to the Caribbean Basin, and not transfers from the U.S.

The possibility of an annual review mechanism to analyze the results of these exemptions would serve as an excellent guarantee for the domestic industry and would allay the fears of those who envision a flood of imports.

TOURISM AND RELATED ISSUES

There are several other substantive provisions. Many of them passed in the House of Representatives last year as part of "CBI-II." Despite criticism of their lack of value, they constitute windows of opportunity for the Caribbean Basin. The increase in the duty-free allowance for U.S. citizens returning from the region is a shot in the arm for the handicrafts and other small industries of the region. The increase in the amount of rum a U.S. citizen can bring back duty-free also helps Caribbean producers, the quality of whose products is world renowned.

We must recall the importance of *tourism* in the context of economic development. Our region is a key destination for U.S. travelers, whose consciousness is

raised while they obtain rest and recreation. Not only do countries need to promote their uniqueness, they need also to count on appropriate resources to adequately develop their tourist industry. There is, therefore, ample justification for U.S. assistance in promotion and marketing, as well as for building the necessary infrastructure. U.S.-sponsored missions to the region can increase the awareness of what Central America and the Caribbean has to offer. We therefore urge the passage of the simple "Sense of the Congress" provision on tourism, as well as other provisions to strengthen this vital sector.

SCHOLARSHIPS & TRAINING

Training of Caribbean Basin nationals for jobs in the tourism industry is essential for true progress to occur. Scholarships and learning opportunities should be increased, not only in tourism, but in all other areas. This will ensure that our human resources are adequately endowed. At the same time, U.S. educational institutions will be enriched and able to take credit for the development of their most important productive element, as other major powers (like the Soviet Union) are now doing.

OECS/BELIZE

Another area which the CBI Embassy Group has consistently stressed is that of *special treatment for the Eastern Caribbean and Belize.* In order to take full advantage of the benefits and meet the challenge of the trade provisions of the CBI, small states need adequate assistance to develop their infrastructures and to be trade competitive. The House of Representatives recognized this in a "Sense of Congress" recommendation which should be expanded and strengthened by the Senate. The genuine progress of these countries depends, in great measure, on an adequate level of economic development and trade access. In both, the support of the United States is indispensable.

ETHANOL

The access of Caribbean Basin Ethanol to the U.S. market was guaranteed for a 2-year period by a provision in the Steel VRA bill. We urge that secure access, on a permanent basis, be now afforded to the Caribbean Basin countries.

The honorable Committee's experience and knowledge of world trade places it in a position to craft meaningful legislation that helps, enhances and strengthens the Caribbean Basin Initiative. In addition to the areas discussed above, there are undoubtedly fresh ideas that can contribute to socio-economic development in the region. The CBI Embassy Group stands ready to explore such areas and work together to achieve the goals of hemispheric solidarity, mutual assistance and development.

Statement of the Committee on Pipe and Tube Imports

This statement is submitted on behalf of the Committee on Pipe and Tube Imports (CPTI) a trade association which represents the domestic pipe and tube industry. Our members produce approximately 75 percent of all steel pipe and tube products in the United States. The CPTI supports the principal goals of S. 504, the Caribbean Basin Economic Recovery Act (CBERA). We understand that a strong economic foundation and continued economic growth in the Caribbean are important for U.S. political and economic interests. In addition, U.S. steel producers, including some of our members, export products to the Caribbean. Increased trade with the Caribbean countries will benefit all parties concerned.

Our support for the goals of the Act, however, is tempered by our clear opposition to Section 8 of the bill, the provision exempting imports from Caribbean Basin Initiative (CBI) countries from the cumulation provisions of Section 771(c) of the Trade Act of 1930. This new exemption actually undercuts the long term goals of CBERA, is unnecessary in light of recent modifications to the cumulation provision, and will significantly weaken both U.S. unfair trade laws and U.S. trade policy goals.

If the goals of the CBERA are to be attained, it is essential that healthy, competitive, fair trading industries be encouraged to operate in the CBI region. Strong trade laws, including provisions for cumulation of unfairly traded imports, compliment the goals of the CBI program. However, Section 8, as presently drafted, provides an incentive for companies located in the Caribbean to trade unfairly [and for companies to locate in the Caribbean in order to trade unfairly]. Neither the CBI countries nor the United States would benefit from that situation in the long term.

In the Omnibus Trade and Competitiveness Act of 1988, Congress amended the cumulation provision so that imports from countries whose imports were negligible would not be cumulated. CBI countries are already directly benefitting from this change. A general exemption for all products from CBI countries is unnecessary.

The adoption of Section 8 would also significantly weaken United States trade laws. Section 8 could seriously impair our ability to gain relief from dumped and subsidized imports, even *imports from non-CBI countries.* For example, if our industry were being injured by dumped imports from three countries, one of which was located in the CBI region and thus not subject to cumulation, the ITC might not find injury by any of the countries, even though it would have found injury by imports from all the countries if they had all been cumulated. Thus, Section 8 would be not only encouraging unfair trade, but perpetuating it.

The Committee is well aware of the widespread unfair trade in steel products that led to the enactment of the Steel Trade Liberalization Act and the initiation of bilateral voluntary restraint agreements with our major trading partners. The pipe and tube industry in particular has been adversely affected by unfair trade. In 1984, import penetration of pipe and tube products exceeded 55 percent. Since 1982, forty (40) different antidumping and countervailing duty orders went into affect on pipe and tube products. Of these, twenty-five (25) orders were withdrawn pursuant to the A program. Our industry attaches a high priority to strong and effective U.S. trade laws, the only avenue we will have to counter the injury caused by unfairly traded imports after the A program expires on March 31, 1992.

By granting a blanket exemption for imports from CBI countries, regardless of the magnitude of the imports or their harmful effects on U.S. industry, Section 8 would practically invite the use of the Caribbean to circumvent dumping or countervailing duty orders against steel or steel pipe and tube products. We in the pipe and tube industry would feel the effects very quickly. It is relatively easy to install equipment for a pipe mill. A used pipe and tube mill could be purchased and installed in the Caribbean in less than a year for an investment of less than $10 million. Such a mill could be able to transform $30-$40 million of steel annually into pipe products.

This scenario is real. Several proposals for pipe mills in the Caribbean have surfaced in recent years. These plans are still viable. Any such mills would represent a serious threat to our industry. The Caribbean market would be unable to absorb the output, so the mills' owners would have no choice but to export to the United States.

Given the worldwide overcapacity in pipe and tube, these mills could only be competitive by using dumped steel, steel which otherwise could not enter the U.S. due to As or duty orders. The mills would also have to dump their own products. Encouraging such behavior would be inconsistent with the goals of U.S. steel policy, which recognizes that unfair trade is a direct consequence of overcapacity.

The pipe and tube industry has seen this type of circumvention before. During the term of the first As, 1984-89, several new supplier countries set up mills and began shipping pipe and tube products to the United States once traditional suppliers restrained their shipments. A countries began shipping steel to non-A countries for transformation into pipe and tube products for export to the United States. These new supplier countries were benefitting from the A program at the expense of the domestic industry. The same thing could happen if this unwarranted exemption is enacted.

Section 8 is also in direct conflict with our goals for the Uruguay Round to maintain and strengthen U.S. trade laws and the GATT rules prohibiting unfair trade practices. It will undercut the already difficult task of the United States in seeking a truly fair regime in world trade.

In conclusion, the CPTS is strongly opposed to Section 8 of S. 504 as currently drafted. The CPTS would support amending the language of Section 8 to require that in order to qualify for the exemption from cumulation, the product must have at least 50 percent value-added in the Caribbean. This requirement would create real Caribbean production and value, rather than encouraging the proliferation of small value-added operations intended to take advantage of this cumulation provision and to evade the full impact of U.S. trade laws.

We appreciate the opportunity to present our views on the Caribbean Basin Economic Recovery Act to the Committee on Finance.

STATEMENT OF THE DOMESTIC PRODUCERS OF CARBON STEEL WIRE ROD

Armco Inc., Bethlehem Steel Corporation, Georgetown Steel Corporation, North Star Steel Texas, Inc., Northwestern Steel & Wire Company and Raritan River Steel

Company, domestic producers of carbon steel wire rod, submit this statement concerning legislation to amend the Caribbean Basin Initiative. Initially, we want to emphasize that we fully support the goal of improving the economies of CBI countries. However, we believe that these improvements should come about through market forces, and not via subsidization or dumping products in the United States. This legislation would encourage the latter unfair trade practices by weakening U.S. unfair trade laws for CBI countries.

In summary, the wire rod manufacturers oppose Section 8 of S. 504, which would establish a separate injury cumulation standard for beneficiary countries in antidumping and countervailing duty investigations, and urge the Committee to retain the current cumulation standard. Section 8 should be deleted for the following reasons:

(1) A relaxed cumulation standard would effect a major change in the unfair trade laws and make it much more difficult for U.S. industry to defend itself against dumped and subsidized imports from CBI countries.

(2) To exempt CBI countries from cumulation merely because they are small economies strikes at the very heart of the cumulation provision, for it is precisely because of the injury caused by small economies that the cumulation provision was enacted in the first place.

(3) Existing law already exempts negligible imports that have no discernible adverse impact on U.S. industry from mandatory cumulation, and should be sufficient to protect small Caribbean producers, where appropriate.

(4) By offering the "shelter" of a relaxed injury standard, Section 8 would encourage persons to establish operations in CBI countries that are designed to evade or circumvent antidumping and countervailing duty orders. This contradicts U.S. objectives recently submitted in Geneva for the multilateral trade negotiations on dumping.

(5) An exemption from cumulation is particularly inappropriate with regard to steel exports from CBI countries, due to the presence of the state-owned Iron and Steel Company of Trinidad and Tobago ("ISCOTT"). ISCOTT is a wire rod facility that has received massive infusions of government subsidies to cover construction and operating costs, and has been found by the U.S. Government to be selling dumped and subsidized steel in the U.S. market. ISCOTT's wire rod capacity far exceeds estimated domestic consumption and its exports present a significant threat to the U.S. industry.

(6) President Bush has stressed that after the VRA program expires in 1992, the steel industry must rely on the unfair trade laws as a check against foreign unfair trade practices, and has promised vigorous enforcement of those laws. The wire rod producers urge the Committee to leave these laws intact so that they remain effective against unfairly traded imports from the CBI.

Under current law, imports into the United States of a product under investigation are cumulated with like imports from other countries subject to investigation for purposes of determining whether imports cause injury to the domestic industry. Section 8 of the proposed legislation would amend this cumulation standard to provide that imports from CBI beneficiary countries may only be cumulated with imports from other CBI countries. By providing a separate cumulation standard, the sponsors intend, as Senator Graham explained, to "extend a sensitivity to the unique nature of the small economies involved in the CBI by separating their exports from large-scale trade violations cases." [1]

With due respect to Senator Graham, it is precisely because of the injury caused by small economies that the cumulation provision was enacted in the first place. As the Ways and Means Committee explained:

> The Committee believes that the practice of cumulation is based on the sound principle of preventing material injury which comes about by virtue of several simultaneous unfair acts or practices. The Committee amended the criteria to permit cumulation of imports from various countries that each account individually for a very small percentage of total market penetration, but when combined may cause material injury.[2]

In an early case dealing with cumulation, cumulation was described as the policy of redressing the "collective hammering effect" due to the imports of new sources of supply "after avenues of dumping already utilized [have] been closed by enforcement of the dumping statute." [3] Thus, to exempt CBI countries merely because they

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[1] Opening statement on S. 504, 101st Cong., 1st Sess., Cong. Rec. March 2, 1989 at S 2021.

[2] H.R. Rep. No. 725, 98th Cong., 2d Sess. 37, *reprinted* in 1984 U.S. Code Cong. & Admin. News 4910, 5164.

[3] *City Lumber Co.* v. *United States*, 64 Cust. Ct. 826, 829-30, A.R.D. 269, 311 F. Supp. 340, 343 (1970), *aff'd*, 59 CCPA 89, C.A.D. 1045, 457 F.2d 991 (1972).

are small economies runs directly counter to the purpose of the cumulation provision.

Moreover, § 1330 of the Omnibus Trade and Competitiveness Act of 1988 already provides an exemption from mandatory cumulation for negligible imports that have no discernible adverse impact on the U.S. economy. This existing exemption is more than sufficient to aid small Caribbean economies where their exports are truly insignificant.

By offering the "shelter" of a relaxed injury standard, Section 8 would indeed help achieve the aim of the sponsors and the Administration of encouraging "investment" in the CBI. However, that investment could well be in operations that are specifically designed to evade or circumvent antidumping and countervailing duty orders. For example, it would not be difficult or expensive to set up a mill in the CBI that could take imported steel sheet subject to a dumping order in the U.S., substantially transform it into pipe in the CBI, and export it to the United States as a product of the CBI. These pipe imports would escape the reach of the existing dumping order on sheet, and would be protected by the higher injury hurdle if a new antidumping case were filed. This is the very activity that the United States seeks to address in current multilateral trade negotiations. As the U.S. noted in its Statement accompanying the U.S. proposal on dumping submitted recently in Geneva:

> [D]omestic industries found to have been materially injured as a result of dumping by foreign competitors have watched time and again as those competitors rapidly shifted manufacturing operations to evade the findings. Not surprisingly, these domestic industries have begun to lose confidence that antidumping remedies can provide effective relief from unfair competition . . . To restore balance to and confidence in the system, new rules and provisions are called for that reflect the new realities of international commerce and unfair trading practices.[4]

In light of this, we urge the Administration to reconsider its support for Section 8.

The wire rod producers do not just harbor an idle fear of what "could" happen if Section 8 were enacted. The industry is only too familiar with the impact that one Caribbean producer can have in the U.S. market for a commodity-type product like wire rod. In fact, a review of the state-owned ISCOTT steel mill in Trinidad and Tobago will demonstrate that it is far from a small player in the global steel market and it does not merit a relaxed injury standard in unfair trade cases.

ISCOTT was built by the Trinidad and Tobago government at a cost of $460 million [5] and began operations in 1981. It is a modern, major integrated mill, with two direct reduction iron plants having a total capacity of 900,000 tons per year, melting and casting facilities with a capacity for 700,000 tons of billets, and a rolling mill with a capacity for 600,000 tons of wire rod. ISCOTT's capacity is comparable to large U.S. wire rod mills and far exceeds domestic consumption of wire rod in Trinidad and Tobago, which is estimated at 50,000 tons annually.

ISCOTT began exporting substantial tonnages of carbon steel wire rod to the United States quickly after its start-up, accounting for 56,000 tons of wire rod imports in 1982, 63,000 tons in 1983, and 62,000 tons in 1984. In fact, Trinidad and Tobago soon became the third-largest foreign supplier of wire rod to the United States. The imported rod was offered for sale at dumped and subsidized prices and caused substantial injury to the domestic wire rod industry, contributing to an industry operating loss of $94.5 million in 1982.[6] The industry filed unfair trade cases against wire rod imports from Trinidad and Tobago and obtained final affirmative determinations of 9.79 percent (antidumping) and 6.738 percent (countervailing).[7]

Additional evidence made available during the annual reviews of these trade cases established that wire rod was sold by ISCOTT at margins of at least 20–30 percent below the cost of production,[8] and that the actual dumping margin was

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[4] Statement of the United States Introducing the U.S. Proposal [on the Antidumping Code], pp. 4–5.

[5] *Financial Times*, October 27, 1988, at 38. This is significantly greater than the cost of comparable domestic facilities.

[6] *Carbon steel Wire Rod From The German Democratic Republic*, USITC Publication 1607 (preliminary), November 1984.

[7] 48 *Fed. Reg.* 43206, September 22, 1983; 49 *Fed. Reg.* 480, January 4, 1984.

[8] In 1987, Trinidad and Tobago entered into a voluntary restraint arrangement with the United states because of the substantially increased margins found during the administrative review. In return for the VRA, the antidumping and countervailing duty orders were revoked.

much higher. According to widely published news accounts, ISCOTT was plagued with low capacity utilization of under thirty percent during its first five years and accumulated losses of nearly $500 million.[9] It has regularly received significant infusions of government funds to meet operating deficits and debt repayments.[10]

As part of an effort to restructure the state-owned industrial sector and stem further losses, the Trinidad and Tobago government recently leased the ISCOTT mill to the Ispat Group of India, which has renamed the plant "Ispat Caribbean Limited" and will operate the plant for ten years, from May 1, 1989. The Ispat Group operates steel mills in India and Indonesia and is a major exporter of steel to the United States. Under Ispat's management, the company is well poised to increase capacity utilization, lower production costs, and pursue increased steel exports to the United States. What remains unclear is the extent to which Ispat will benefit from the enormous subsidies paid to ISCOTT by the Government of Trinidad & Tobago.

If ISCOTT/Ispat Caribbean Limited resumes its unfair trading activities, perhaps benefitted by previous subsidies, the U.S. industry must be ready to fight back with aggressive use of the unfair trade laws. In announcing the extension and renegotiation of the VRA's for a period of two and one-half years, President Bush specifically emphasized that at the end of this period, the U.S. steel industry "will continue to rely on domestic trade laws as an ultimate assurance against the effects of foreign unfair trade practices. The Department of Commerce will continue rigorously to enforce the laws against injurious dumping and subsidization." [11] We support the President's program and are fully prepared to use the unfair trade laws again, but urge the Committee not to weaken those laws before we have the opportunity to apply them.

Again, we support the Administration's goal of bolstering the economies of CBI countries, but Section 8 would merely encourage those economies to resort to *non-market* forces—subsidies and dumping. We do not believe this legislation was intended to foster such non-market activity. For the foregoing reasons, we believe it is inappropriate to provide CBI beneficiary countries with a separate cumulation injury determination, and therefore urge the Committee to delete Section 8.

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[9] *Financial Times*, October 3, 1988 at 43.
[10] See *Mining Annual Review*, June, 1988 at 316; *Financial Times*, May 17, 1988 at 28.
[11] Statement by the President, The White House, Office of the Press Secretary (July 25, 1989).

OPEN LETTER TO THE DISTINGUISHED MEMBERS OF THE TRADE SUBCOMMITTE OF THE FINANCE COMMITTE OF THE HONORABLE FINANCE COMMITTE OF THE U.S. SENATE, U.S. CONGRESS, ON THE OCASSION OF THE OPEN HEARINGS ON THE SO CALLED CBI II BILL (CBERA ENHANCEMENT), SCHEDULED FOR FEBRUARY 9, 1990, AT 10:00 HOURS, WASHINGTON D.C

FEDEPRICAP

The following statement has been elaborated trying to interpret the positions of all FEDEPRICAP member organization. The Federation of Central American and Panamanian Private Entities, is the so-called umbrella organization of the area's private sector. It has twelve affiliated entities, two from each country in spanish speaking Central America, being one of them the local umbrella organization, and the other the most meaningful socioeconomic development private sector organization. FEDEPRICAP was formed in 1987, not only for the purpose of defending private initiative as a fundamental human right, but also to promote development initiatives in diverse fields of human activity -always in an strategic sense-, with the conviction that it is possible to create a series of conditions in the Isthmus which would enhance a lasting peace, within a profoundly democratic setting, respectful of human rights and liberty in each country, and throughout the region. FEDEPRICAP believes that there is much to be gained from regional cooperation, and that the private sector has a most important role to play, both as a duty and as a right, in the Region's development process. FEDEPRICAP is headquartered in Costa Rica, as has the basic staff to perform its duties, as required by its objectives.

The CBERA has always been of highest priority for FEDEPRICAP. It has been considered a valuable tool for the development of the Region, but nevertheless, with many limitations. It is understood that no Act or Legislation can be perfect, nor can stay perfect, it is the creation of the

imperfect human mind, in an ever changing World, where expected condition very seldom turn out to be completely correct.

Many events and changes have ocurred since the inception of CBERA, not only in Central America, but Worldwide. Central America has suffered enormously, unfavorable terms of trade, lack of "investment for development" resources, lack of technology and widespread poverty, fast political change, a debt problem and social modernization with rising popular expectations, have been more the rule than the exception, sometimes generating in violent conflict. In spite of that, efforts to develope continue, and in some countries they have paid of at least partially, according to the Yearly Report of the ECLA Comission for the year 1989, in the period between 1981 and 1989, the Gross Internal Product of Costa Rica, Guatemala, and Honduras grew at an acumulated rate of 20.9, 5.6, and 19.8% respectevely. Obviously those numbers are innadecuate, but they reflect a will to do things better, to make the best of the objective conditions, despite the fact that in those years, Latin America expanded its exports 57% and saw its revenues increased by only 24%.

CBERA has been a positive factor in the improvement of conditions in some countries in the area, such as Costa Rica and Guatemala, helping to diversify and make the economies more efficient, and at the same time, playing a positive role in the enhancement of free enterprise in the Area. Honduras has made some inroads, and there is hope that the next years will show a most improved situation, hopefully that should be the case too with Panamá, and with hardworking El Salvador, whose people have shown

a will to prevent the country from collapsing by hard work, and faith in the future. There are hopes that under the leadership of President Cristiani, and the influence of a very enlighted entrepreneurial class, the country will -with the continued assistance of the United States of America- become a show case of democracy and well being for all. Nicaragua cannot be discarted, and it remains to be seen what happens after the election on February 25, 1990. Hopefully, the conditions to acredit it as a full beneficiary of the CBI will be present.

But CBERA has shown its limitations, which have motivated very distinguished Members of the U.S. Congress to work with Caribbean Basin representatives, the Administration, and friendly organizations in Washington D.C., in the pursuit of an enhanced CBI, that addresses those limitations, and creates conditions for future development. It must be said that FEDEPRICAP does not see the CBERA as the end of the road for hemispheric integration, for sometime it has been argued that in the long run the conditions are present for a Free Trade Area, with full participation of Canada, México, and the Caribbean Basin nations. Obviously, that possibility is a long way down the road, although feasible with Global conditions helping, since, as it is clear, the Traditional Political Blocks of the world are redefining themselves into economic Blocks, possibly as an intermediate step to complete free global trade, but a very sensible, and probably necessary step. In the next few days, FEDEPRICAP, in colaboration with it's counterpart in the Caribbean -the Caribbean Association of Industry and Commerce- will make public a

proposal for such an long term development strategy; one that builds -up in the complementary potential on the hemispheric economies. **However, it would probably be judged as very helpfull if the U.S. Congress were to put itself on record as favoring the long or medium term expansion of the CBERA into a Free Trade Zone, naturaly taking into account the CBI countries stage of development, and limitations at the time, as the European Community has done with its weaker neighbors who are, nevertheless, contributors to the common market and European grandeur. The idea is to consolidate regional trade by strengthening trade partners, not by weakening them.** The suggested extension of the present CBERA as stated in the so-called CBI II, reinforced with a statement in the record similar to the one suggested, will increase investors confidence in a very meaningfull way and will create strategic sense in all countries involved, perhaps non existent nowdays. In any case, for the Central American nations, the approval of an enhanced CBERA, complementary to adequate levels of development aid, is of utmost importance. This is something which is, sometimes, hard to understand for a World power such as the United States of America, who, in the long run will probably share a common desting with their neighbors. As said before, FEDEPRICAP realizes that the two proposed versions of CBI II, presented for discussion have limitations, on the other hand, it perceives that, due to the urgency of obtaining the permanent status for the program, and the included important proposals, it might be necessary not to insist on preferences for footwear, and apparel. That seems to be the most sensible position, but nevertheless, thought should be given to the incipiency of those two activities just mentioned, the extent of the

damage, and the legitimacy of the claims being made, by some who might not yet understand how beneficial the enhancement of the CBI could be for all. **But in spite of all considerations that should be thoughtfully addressed, CBI II must be approved soon, with a self-enlighted interest sense if that is the case, based on the thinking that hemispheric development is good for all, and the perpetuation of the present desequilibriums will hurt all, within a holistic concept of reality.** Nobody wants more economic refugees, more violence, more poverty. Peace is both a consequence and a factor of development, for which economic prosperity, and democracy are integral components.

It seems important to mention a few other things, that clearly fit into CBI II, and as far as Fedepricap knows, are not included in the two CBI II versions under scruting by the Honorable Trade Subcommittee. Those are the following, which undoubtely, will be complementary to the ones provided by other more specialized entities:

- the request that USTR negotiate an arrangement with Canada, to assure that Caribbean Basin imputs are treated as equivalent to Canadian or U.S. imputs, for purposes of the existent Free Trade Agreement.

- extension of duty-free treatment to those goods which are clearly no threat to the U.S. industry, such as some toy animals, exotic handbags, wall hangings, hammocks, etc.

- Establishment of a system to confer duty preferences to exempted articles where it is demostrated that such action would not have an adverse effect on the U.S. domestic industry.

Honorable and distinguished Senators, it is not necessary to take any more of your precious time, specially when this paper has been written with very clear linguistic limitations. Hopefully, the position has been clear and well understood. It is important not to loose perspective and value things as they should be at all times, thinking not only in the short run, but creating conditions for the long run, since it is the duty of all members of the human race, to help create the best possible conditions, for future and permanent enhanced existence. It can be said with certainty that the CBI, and continued economic assistance to compensate for the Region's structural limitations, are the most important tools we presently have to attain the long term socio economic and political objetives we all share.

Fedepricap would like to take this opportunity to express its gratitude to all those, including the Honorable Congresspersons, Congress staff, and Administration officials, which in one way or the other have shown interest, and a will to understand a very complex, promising, and for many centuries, productive yielding Caribbean Basin.

Very sincerely and respectfully Yours Distinguished and Honorable Senators,

Camilo A. Bolaños
President

February 6, 1990

WRITTEN STATEMENT

OF

THE GOVERNMENT OF COSTA RICA AND

THE COSTA RICAN PRIVATE SECTOR COMMITTEE

FOR FOREIGN TRADE

(FUNDACION PARA LA DEFENSA

DEL COMERCIO EXTERIOR)

I. BACKGROUND.

In 1983, beneficiary countries greeted the Caribbean Basin Initiative as a vehicle for helping to solve many of the region's worse economic problems - high unemployment, shortages of foreign exchange and heavy debt burdens. Above all, the first Caribbean Basin Economic Recovery Act has promoted enterprise - oriented development. Indeed, the CBI has confirmed that promotion of free entreprise presents the best opportunity for achieving genuine economic growth and prosperity for the region over the long term.

In the last six years, CBI beneficiary countries have experienced economic growth and social stability. The ability of beneficiaries to attract foreign investment and expand non traditional exports are two of the most important results of the CBI program. A 1988 survey by the US Department of Commerce found over $ 1.5 billion in new investment in the region since the CBI began. In addition, U.S. non - petroleum imports from the region grew by 35% between 1983 and 1988 (an average annual growth rate of 6.3%). Aditionally, exports of CBI-elegible, non-traditional products from the region to the U.S. have grown at an average annual rate of 4.9% from 1983 to 1988. These exports rose by an impressive 11.1% in 1988, to a total of $ 1.8 billion.

Equally important, the program has allowed the United States to maintain its leadership role in the region, while also receiving economic benefits. These benefits include:

- Expansion of U.S. exports of goods and services to the region. It is a fact that 70% of every dollar of value imported by the U.S. from the Caribbean and Central America, returns to the U.S. economy as purchases of good and services, while in other parts of the world the average return to the U.S. economy is only 15%;

- Increased capacity of CBI countries to service their foreign debt, which is mainly held by U.S. banks;

- Decreased flow of migrants to the United States as local employment opportunities increase; and

- Better prospects of decreasing the amount of U.S. economic aid.

The CBI has created a symbiotic, mutually advantageous, trading relationship, as increased regional economic output and exports are effectively tied to increased exports from the United States to the region. It has been estimated that over 50% of the value of all CBI imports is derived from U.S. materials and/or

labor. Recent statistics from the U.S. Department of Labor conclude that an average 70% of the value of CBI goods imported to the United States under the 807 program is derrived from U.S. material and/or labor in contrast to the 25% incorrporated in 807 goods imported from other countries.

The Caribbean Basin is one of the few regions of the world with which the United States enjoys a trade surplus ($ 1.4 billion in 1988). The region is a major market for U.S. agricultural exports and is a net importer of U.S. consumer and industrial goods.

The Government of Costa Rica and the Costa Rican Private Sector Commitee for Foreign Trade (Fundación para la Defensa del Comercio Exterior) believe this mutually advantageous relationship should be continued and strengthened.

II. COSTA RICA'S POSITION

Costa Rica has fared especially well under the CBERA:

- Total non-traditional exports from Costa Rica have almost doubled since 1983; these exports represent about 50% of total Costa Rican exports. These exports were only 13% when CBERA was first enacted in 1983.

- In 1988, imports from Costa Rica accounted for 9.3% of total U.S. imports from the Caribbean, up from 7% in 1984.

- It is estimated that al least 20,000 new jobs have been created in Costa Rica since the approval of CBERA.

The CBI II legislation before this Committee is, therefore, of special interest-to Costa Rica. The following comments on specific aspects of the bill reflect the views of Costa Rica's Government and leading Trade Associations and Chambers of Commerce and Industry. We strongly urge the Senate of the United States to enact CBI legislation, and believe that the bill, with a few amendments, will ensure the continuation of the economic and social well being promoted by the current program.

III. PRINCIPAL ISSUES

A. Extension of CBI

We strongly support the idea of transforming the CBI into a permanent Program. We therefore support the repeal in SS3 of the CBERA's 1995 expiration date, as well as a provision requiring 12 years advanced notice before termination.

B. Aplication of Antidumping and Countervailing Duty Law

The provision of most immediate benefit to us would be S8, requiring the ITC to separately cumulate CBI exports in dumping and countervailing duty investigations in determining whether imports are causing material injury to domestic industries. Separate cumulation of CBI exports will not only restore the confidence of CBI beneficiaries in the U.S. Administration 's commitment to create a stable Caribbean region, but will also promote the flow of American investment to the area. This provision will also satisfy the goal expressed in the Omnibus Trade and Competitiveness Act of 1988 that the CBI should not be weakened by its provisions.

Furthermore, we support exempting CBI imports from the provision in the Omnibus Trade Bill which precludes the International Trade Commission from taking into account U.S. industry profits from coproduction operations when determining injury to U.S. producers. This exemption would minimize the possibility of finding that CBI imports cause injury in dumping and countervailing duty cases.

In addition, we believe that the development of an adequate export capacity in the CBI region requires direct assistance and investment in infraestructure form beneficiary governments. Such assistance should not be considered a subsidy under U.S. countervailing duty law. The lack of such an infrastructure makes operations "uncertain and difficult for foreign investors" who intend to invest in the CBI region. If such fundamental Government support is considered to be a subsidy, the majority of the CBI countries will always be condemned for unfair trade practices. Assessing duties for this type of program would adversely affect CBI development.

C. 100% U.S. Components

Of mutual benefit to the U.S. and the Caribbean region are the provisions allowing duty free and quota-free import into the United States of products which, although currently excluded from CBI treatment, are manufactured, assembled or processed exclusively from U.S. components and materials. We also support duty-free treatment for articles incorporating a limited percentage of non-U.S. components.

D. 50% Duty Reduction

We strongly support the provisions of the bill which grant a 50% reduction of MFN duty rates to products formerly excluded from CBI benefits.

E. Duty Reductions for Textile Products

We would see of great advantage for the region the inclusion of a provision which grant a duty-free treatment for apparel items imported under Guaranteed Access Levels (GAL's), as well as a duty reduction for items imported under the regular textile import regulations.

F. Expansion of the GAL's Program

We recognize the significance of the GAL Program to the region. Therefore, we would like to take advantage of this legislative opportunity to request the Senate to make the GAL a statutory program. In addition, we urge the Senate to consider the expansion of the GAL Program to include apparel made from fabric formed in the CBI countries.

G.Leather Footwear

The leather footwear industry in the region is very small, but generates many jobs and incorporates a high percentage of domestic raw materials. We, therefore, urrge the Senate to grant duty reductions to these products.

H.Omnibus Trade Bill Provisions

We believe the Finance Committee should use the drafting of CBI legislation as an opportunity to offset the potential negative effects on regional exports caused by certain provisions of the Omnibus Trade and Competitivenesss Act of 1988. The

Committee should review the possible effects of these potentially harmful provisions, which include authority to the President to suspend CBI benefits indefinitely, Section 301 actions and facilitated escape clause relief, particularly for perishable goods.

I. Sugar

Sugar is just as important to the reegion today as it ever was. Therefore we would urge that the sugar provision contained in the bill be retained until or unless a permanent and satisfactory solution can be obtained. We believe that it is necesary to provide Caribbean Basin sugarr producers with less restrictive access to the U.S. market.

J. Ethanol

Ethanol exports under the CBI programm have been a matter of controversy. Special ethanol "feedstock" or raw materials rules were enacted in 1986, in addition to the basic CBI value-added requirements. Additionally, a compromisse provision concerning the criteria for the duty-free entry of ethhanol from CBI contries (and U.S. insular possessions) was enacteed last year as part of H.R. 3275. This ethanol compromise eliminaates minimum indigenous feedstock for ethanol inputs up to a level of 60 million gallons or 7% of the domestic ethanol market, whichever is greater. Minimum indigenous feedstock requirements would apply for production above this level as follow: (i) 30% would apply to the next 35 million gallons and (ii) 50% would apply to all additional imports. These percentages apply on a volume basis. There are no special requirements, however, for ethanol produced solely from CBI raw materials. We believe that the compromise is balanced and reasonable. Therefore, we wholeheartedly support this provision and urge that the Senatee enact the industry compromise on a permanent basis as originaally intented.

K. Tourism

The CBERA virtually ignored the economic opportunities presented by tourism, and even the provisions of H.R. 1233 do not squarely address the issue. (Sections 4 of the bill would raise the duty-free limit for purchases by U.S. tourists from $ 400 to $ 600 and Section 9 would require U.S. Customs to establish preclearance facilities in the Caribbean). We believe the bill should indicate clearly that the U.S. Department of Commerce, AID and OPIC funding can support tourism projects in the CBI region.

L. Scholarships and Training

We fully support any kind of Scholarships and Training's Programs which contribute to development of the human resourses of the region.

STATEMENT OF INNER SECRETS, INC.

This statement is submitted on behalf of Inner Secrets, Inc. of Hoboken, New Jersey, in support of S. 504, the Caribbean Basin Economic Recovery Expansion Act of 1989.

Inner secrets is a leading manufacturer of brassieres and girdles. Inner secrets has a manufacturing/assembly plant located on the island of St. Lucia. This facility, operating under the name Belle Fashions, has undergone a number of plant expansions since the inception of its operation, and is currently the largest employer on the island of St. Lucia.

S. 504, as currently drafted, would expand the current duty-free treatment of exports from the Caribbean Basin region which was originally provided by the Caribbean Basin Economic Recovery Act of 1983 ("CBERA" or "CBI," as it is commonly referred). Inner secrets strongly supports the provision of section 5 of S. 504, which would permit duty-free treatment under negotiated Guaranteed Access Levels for certain articles assembled from U.S. materials in the Caribbean Basin countries. This is precisely the type of operation which Inner secrets currently utilizes with its Belle Fashions facility.

Inner secrets ships U.S. materials from the United states to St. Lucia, where the U.S. materials are assembled into brassieres and girdles. It such articles were to be provided duty-free treatment, it would enable Inner secrets to further expand its facility, which would benefit both its U.S. suppliers and workers in St. Lucia.

It should be noted that although the total customs value of imports to the United states under CBERA provisions in 1988 was $791 million, the value that actually benefited from the duty-free treatment amounted to only $297 million, as many of these imports could have entered duty-free under GSP provisions in the absence of CBERA. *See Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers*, USITC Pub. 2225 at v. The figure for those imports that actually benefited represents approximately 0.1 percent of total U.S. imports. As noted in the Report, with the CBERA-country share of U.S. imports at such low levels, the impact on U.S. industries and consumers in 1988 was minimal. Moreover, over the five years of the program's operation, the level of imports that actually benefited from CBERA provisions actually declined—from $506 million in 1984 to $297 million in 1988. Id. at vi.

In order to reaffirm and further strengthen the commitment of the United States to the Caribbean Basin, S. 504 is essential. Inner Secrets strongly believes that the enactment into law of S. 504, which would make the CBI program a permanent feature of U.S. law, would improve the effectiveness of the CBI program and build greater confidence in U.S. industries in that region. such a feature would create a climate of greater business certainty to investors who may be unwilling to act without the guarantee that the benefits of CBI will remain intact.

Passage of the Act would also lead to economic prosperity in the region, thereby contributing to greater political stability, which is clearly beneficial to U.S. interests.

On behalf of Inner Secrets, we aré pleased to submit the above comments in support of S. 504. If it is so desired by the senate Finance Committee, representatives of Inner secrets would be available for questions or additional comments.

EMBAJADA DE LA REPUBLICA DOMINICANA,
Washington, DC, December 29, 1989.

Senator LLOYD BENTSEN, *Chairman,*
Committee on Finance,
U.S. Senate,
Dirksen Senate Office Building,
Washington, DC.

Re: Caribbean Basin Economic Recovery Expansion Act of 1989 (S. 504)

Dear Chairman Bentsen: I am pleased to transmit to you for inclusion in the record the comments of the International Sugar Policy Coordinating Commission of the Dominican Republic on the salutary effects of the provisions in S. 504 relating to sugar imports.

In addition, the Government of the Dominican Republic believes that the bill, as introduced on March 2, 1989 by Senator Graham, contains a number of other provisions that will be beneficial to the Dominican Republic and other countries in the Caribbean Basin. The most important of these are the increase in the duty-free allowance for returning tourists; the establishment of a separate "cumulation" re-

quirement for determining injury in dumping and countervailing duty cases; the liberalization of access to the U.S. market and duty reductions for textile and apparel products, and duty reductions for certain other products; and the repeal of the 1995 termination date for duty-free treatment and making such treatment permanent.

Thank you for your consideration of these matters.

Very truly yours,

DARIO SURO, *Charge d'Affaires.*

Attachment.

STATEMENT OF THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC [1]

While S. 504, the Caribbean Basin Economic Recovery Expansion Act of 1989, contains a number of provisions that would benefit the Dominican Republic, Section 7 of the bill, which establishes a floor for sugar import quotas from the region, is the most significant for the Dominican sugar industry.

This provision is important to the Dominican Republic and the other CBI countries because it would serve as a safeguard against a reoccurrence of the worst-case scenario, the 1987 calendar year quota, when the Dominican Republic's sugar quota was cut to 160, 160 short tons, which is less than 20% of the country's traditional exports to the United States. In addition, the bill would provide for small increases in the CBI countries' quotas by the reallocation of unused, suspended, or terminated quotas.

IMPORTANCE OF THE DOMINICAN SUGAR INDUSTRY

As the International Sugar Policy Coordinating Commission has emphasized in its numerous past statements to the Congress, sugar is still the cornerstone of the economy of the Dominican Republic. Historically, ten percent of the population of the Dominican Republic has been dependent on the sugar industry for its livelihood. In the last decade sugar exports have accounted for thirty percent of the country's total export earnings. Even though the relative importance of the sugar industry in the Dominican Republic has decreased in recent years (due to the adverse conditions affecting it), its failure would, nonetheless, strike a mortal blow to the economy of the Dominican Republic and, perhaps, to the country's political stability.

THE DOMINICAN SUGAR INDUSTRY

The Dominican Republic is the principal foreign supplier of sugar to the United States, having a 17.6% share of the allocated quota. Until the early 1980s, the Dominican Republic maintained a fairly stable sugar production, with about 1 million tons, representing 80% of total production, available for export. Between 1975 and 1981 yearly shipments to the United States averaged approximately 805,000 tons. Since 1983, however, four sugar mills have closed down completely and the remaining twelve are presently operating on average at only 65 percent of normal levels.

DEPRESSED FREE MARKET PRICES

For a number of years the world "free sugar market" has been overburdened by huge highly-subsidized surpluses from the EEC, the inelasticity of which has caused prices to drop to levels far below the price support levels in the United States.[2]

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[1] The International Sugar Policy Coordinating Commission is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

[2] "It is important to understand that about 80 percent of global sugar production is sold under protected or preferential marketing arrangements. This means that free market forces act only on the remaining 20 percent. For that reason free market prices are highly sensitive to even small imbalances between world supply and demand. The result is that sugar prices in this residual market fluctuate widely.

"At the present time [1982], the free sugar market is burdened by about 6 million tons of the EEC's highly subsidized surpluses which are exported in violation of GATT. This figure represents over 30 percent of the volume of the free market.

The 1 billion dollars the EEC spends on export subsidies is an insignificant sum within the context of the EEC economy. The practice, however, is the source of great distress to developing countries that export to the free market by causing severe downward pressures on prices in that market." *(Statement of Felipe J. Vicini on behalf of the International Sugar Policy Coordinating Commission of the Dominican Republic to the Subcommittees on International Economic Policy*

Continued

Although prices in the free market have rebounded from the lows of 2-3 cents per pound in mid-1985, to current prices of 12-13 cents per pound, the underlying structural deficiencies in this market still exist. The free market is highly volatile, with very brief periods of high prices, followed by long periods of extremely depressed prices. No producer in the world can depend substantially on the free market. In fact, in order to export on a regular basis to such a market, a producer needs a stable domestic or preferential export market to absorb the bulk of his production.

EFFECT OF S. 504

Section 7 of S. 504 would make two important amendments to the U.S. sugar quota program: it establishes a minimum annual quota for CBI countries of 371,441 metric tons (409,439 short tons) for 1989 and subsequent years, and provides for the reallocation to CBI countries of unused, suspended or terminated quotas.

If this were to become law, the Dominican Republic would be entitled to a minimum annual quota of 204,287 short tons. This represents a positive step in the right direction, but it should be clear that it would not be enough, by itself, to guarantee viable market conditions to the Dominican sugar industry. Theoretically, these conditions could result if the major producing countries simultaneously made fundamental changes in their national agricultural policies that are responsible for the structural deficiencies of the free market. However, we all know such a prospect is not in the immediate offing, notwithstanding the declared objectives of the Uruguay Round of GATT Negotiations. Therefore, in order to eliminate the very real and palpable threat of extinction which the Dominican sugar industry will continue to face, it is essential that it recover its traditional levels of exports to the United States market. S. 504 is a good first step in this direction.

GATT COMPLAINT

In June 1989, an investigative panel of GATT ruled that the U.S. sugar import quota program was illegal under GATT rules and called on the United States to change its practices and bring them into accordance with GATT. The panel ruled in favor of Australia in a dispute brought by that country in 1988 following failure to resolve differences on a bilateral basis. The panel's report was adopted by the GATT Council on June 22, and U.S. Trade Representative Carla Hills subsequently announced that the United States had accepted the report and would comply with the international trade rules, but without unilaterally eliminating support for U.S. sugar production.

The following steps should be taken to achieve the objectives announced by U.S. Trade Representative Hills:

ADDITIONAL STEPS

Although not entirely within the jurisdiction of the Committee on Finance, there are a number of additional steps beyond the provisions of Section 7 of S. 504 that should be taken by the Congress to make the U.S. sugar program GATT-legal and to restore the Caribbean and Central American countries' access to the U.S. sugar market without harming the domestic sugar industry. Such steps would include (1) setting the overall import quota for all countries at not less than the present level of 1.3 million metric tons; (2) providing that additions will be made to the base import quota as consumption increases in the United States until the quota reaches a level of 1.9 million metric tons, at which level only one half of increased domestic consumption will accrue to the base quota; (3) mandating a re-export program to provide for the re-export of refined sugar tonnages equal to the difference in the base quota and 1.9 million metric tons and providing for a phase-out of such program in parallel with phase-outs of export subsidies by the EEC; and (4) establishing standby production and marketing controls on sugarcane, sugarbeets and high fructose sugar in crystalline form, to prevent sugar loan forfeitures that could result from excess domestic sugar production.

If such additional measures were to be enacted by the Congress in 1990, the Caribbean and Central American sugar-exporting countries, and their entire populations,

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and Trade and on Inter-American Affairs of the House Foreign Affairs Committee, March 30, 1982).

This statement is still accurate, but the effect of the EEC surpluses on prices is even more pronounced today because the size of the "free market" has been reduced by the U.S. sugar quota program.

would begin to realize the full range of intended benefits under the Caribbean Basin Initiative.

STATEMENT OF THE LIGA AGRICOLA INDUSTRIAL DE LA CANA DE AZUCAR

On behalf of our client, Liga Agricola Industrial de la Cana de Azucar ["LAICA"], the Costa Rican sugar and ethanol industry, we appreciate the opportunity to submit this statement for the hearing record.

Costa Rica, its sugar and ethanol industry, as well as other intended beneficiaries of the CBERA program, is attempting to retain duty-free CBI treatment for imports of ethanol into the U.S. after December 31, 1991.

A two-year compromise between the U.S. and CBI ethanol industries, negotiated under the auspices of Chairman Dan Rostenkowski and the House Ways and Means Committee, is currently in effect until December 31, 1991. This compromise, enacted into law last year as part of H.R. 3275, The Steel Trade Liberalization Act of 1989, allows a limited amount of CBI ethanol to enter the U.S. duty-free. Specifically, the provision currently:

(i) eliminates minimum indigenous CBI ethanol feedstock requirements for 60 million gallons or 7 of the U.S. domestic ethanol market—whichever is greater; and

(ii) sets minimum indigenous feedstock requirements for imports above that level: 30% for the next 35 million gallons; and 50% for any additional gallons. The percentages apply on a volume basis.

This compromise must be extended and made permanent.

The present two-year compromise was originally intended to be a permanent arrangement. The House approved it as such in H.R. 1233, the "CBI-II" legislation last year. The Finance Committee approved it as a permanent provision in the steel VRA legislation voted out of the Committee on November 15, 1989. (The measure was reduced to a two-year provision on the floor of the Senate when H.R. 3275 was passed).

LAICA is grateful to the Committee for its past support of a permanent solution to the question of duty-free ethanol imports from the CBI, but regrets that the compromise measure was amended and reduced to a two-year provision. The present compromise arrangement should be made permanent. A permanent formula to permit a limited amount of CBI ethanol to enter the United States is essential to the welfare of the Costa Rican ethanol industry.

A permanent formula for duty-free CBI ethanol is necessary for the planning and production of sugar-based ethanol in Costa Rica and the rest of the CBI. It is not feasible to structure the industry's operations, which depend on duty-free imports into the U.S., when the duty-free status is limited to only two years.

United States purchasers of CBI ethanol are affected by the stop-and-go nature of CBI ethanol production and export caused by the U.S. restrictions. A reliable and steady source of supply from the CBI is essential to ensure the timing and quantity of the product.

CBI ethanol is essential to the development of the U.S. ethanol market. The U.S. market needs CBI ethanol.

The General Accounting Organization [GAO] and the U.S. International Trade Commission [ITC] were directed by Congress in the 1988 Trade Act to study the impact of CBI ethanol on the U.S. producers and domestic market. The GAO found that ethanol comprised only about 3% of gasoline sales on the West Coast, and 4% on the East Coast. Both coasts, which CBI ethanol producers would like to supply, need imports to develop as ethanol markets. The ITC found that 60% of all U.S. fuel ethanol sales are made in only 5 Midwestern states, close to their source of production.

The GAO also found that CBI ethanol, with only 3% U.S. market penetration, had "little impact" on U.S. producers. GAO also found that the CBI ethanol producers could not be competitive if burdened with 10–30% local feedstock requirements. On January 1, 1992, when the current compromise duty-free formula expires, they will be faced with feedstock requirements of 75% under § 423 of the Tax Reform Act of 1986.

Ethanol production and export is key to Costa Rica's sugar industry which is so important to that country's economic and social strength. The strengthening through diversification of the sugar industry into development of a new product, ethanol, is just the type of development envisioned by the CBERA program.

If Costa Rica is to maintain its leading and moderating role in regional affairs, its own agriculture and economy must remain strong and viable. The United States' own national interest is therefore well-served by legislation which continues CBI duty-free access to the U.S. ethanol market.

STATEMENT OF THE MAURITIUS SUGAR SYNDICATE *

We wish to thank the Subcommittee for allowing us to present the views of the sugar industry of Mauritius regarding S. 504, the Caribbean Basin Economic Recovery Expansion Act. The Mauritius Sugar Syndicate (MSS) is a private sector organization established by law that represents all sugar millers and planters in Mauritius. Working in close cooperation with the Mauritius Sugar Authority and the Government of Mauritius, the MSS is responsible for the marketing of all sugar produced in Mauritius, including sales to the United States under the U.S. sugar import quota. The views set forth below, which deal exclusively with the sugar provision contained in section 7 of S. 504, are presented by the MSS on behalf of the entire sugar industry of Mauritius.

I. SECTION 7 OF S. 504 IS HIGHLY CONTROVERSIAL AND HAS PROMPTED OBJECTIONS FROM NON-CBI TRADING PARTNERS

Section 7 of S. 504, captioned "Sugar Imports from Beneficiary Countries," guarantees a minimum level of sugar imports from the beneficiaries of the Caribbean Basin Initiative (CBI) program under the U.S. sugar quota. As currently drafted, this minimum is set at 371,449 metric tons (MT), although it has been proposed that the minimum be increased to 526,626 MT, representing the share of the total sugar quota assigned to the CBI beneficiaries under the 1989-1990 quota. In addition, section 7 provides that, in the event a country fails to export its full quota allocation, the unshipped portion of the quota will be reallocated on a pro rata basis among the CBI beneficiaries.

While this proposal would undoubtedly be of economic assistance to the CBI countries, the Subcommittee should keep in mind that a total of 39 countries export sugar to the United States under the import quota program. Only 13 of these countries—one-third of the total—are CBI beneficiaries. The remaining 26 countries consist primarily of developing countries located in Africa, Asia and South America. S. 504 would establish preferential access rights to the U.S. sugar market for the 13 CBI countries and would thereby discriminate against the other 26 countries that have traditionally supplied sugar to the United States. For this reason, the sugar provision of S. 504 is highly controversial and has prompted strong and repeated objections from various trading partners who would be discriminated against by this proposal.

When H.R. 3101, the original version of the CBI-II legislation, was pending before the House of Representatives, the ambassadors of 18 non-CBI countries that have traditionally exported sugar to the United States, including Mauritius, wrote to Chairman Sam Gibbons and the other members of the House Ways and Means Trade Subcommittee on December 1, 1987, to express their concern regarding the sugar provision of H.R. 3101.[1] In this letter, the ambassadors of these 18 non-CBI countries explained that their fundamental concern with guaranteeing a minimum level of sugar imports from the CBI countries is that such a policy fails to recognize the importance of access to the U.S. sugar market for countries other than the CBI beneficiaries. Moreover, if enacted, such a provision would almost certainly diminish access to the U.S. market for non-CBI sugar exporting countries. In addition, the ambassadors observed that, regardless of the manner in which the provision was implemented, it would confer preferential treatment to the CBI beneficiaries, thereby violating the obligations owed by the United States to its other trading partners under the GATT.

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* This material is prepared, edited, issued or circulated by Pierson Semmes and Finley, which is registered with the Department of Justice, Washington, D.C., under the Foreign Agent Registration Act as an agent of the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of the material by the United States Government.

[1] A copy of the December 1, 1987 letter is attached to these comments as Appendix A.

When the Ways and Means Trade Subcommittee held hearings on H.R. 3101 in September, 1988, a total of 14 countries presented witnesses or submitted written comments in opposition to the sugar provision of that bill.[2]

The CBI-II legislation was introduced before the 101st Congress in slightly modified form as H.R. 1233/S. 504. The sugar provision of these bills was only slightly changed from H.R. 3101. On March 8, 1989, H.E. C. Jesseramsing, the Ambassador of Mauritius to the United States, wrote to Chairman Gibbons to express his concern with the sugar provision of H.R. 1233.[3] In that letter, Ambassador Jesseramsing explained the importance to Mauritius of continued access to the U.S. sugar market and expressed his concern that the sugar provision, if enacted, would discriminate against Mauritius and other non-CBI countries. Ambassador Jesseramsing pointed out that this proposal would essentially require the non-CBI countries to "foot the bill" for the benefits accorded the CBI countries through decreased sugar exports to the United States by non-CBI countries.

These concerns were echoed in a letter to Chairman Dan Rostenkowski dated May 11, 1989, in which H.E. M. Dulloo, the Mauritian Minister of Agriculture, Fisheries and Natural Resources, presented the concerns of his government with respect to the sugar provision of the present legislation.[4] In this letter, Minister Dulloo stressed the importance of sugar exports to the economy of Mauritius and the devastating effect that reduced access to the U.S. market would have on Mauritius. Minister Dulloo concluded that the United States should not only promote the interests of the CBI countries, it should also recognize the interests of other developing countries, such as Mauritius.

II. ENACTMENT OF SECTION 7 OF S. 504 WOULD CAUSE SERIOUS INJURY TO THE NUMEROUS NON-CBI SUGAR EXPORTING COUNTRIES

Section 7 of S. 504 would guarantee that the 13 CBI beneficiaries would be able to export at least 371,449 MT of sugar to the United States regardless of any future decrease in the size of the global quota.[5] Inasmuch as the current support price of 18 cents per pound has encouraged significant increases in domestic sugar production, most observers expect the global quota will decline significantly over the next few years if the current price support program is extended as part of the 1990 Farm Bill. Indeed, some experts predict that the global quota could be as low as 700,000 MT as early as next year.

If these events occur, simple arithmetic demonstrates that the non-CBI countries that export sugar to the United States will face a drastic reduction in their access to the U.S. sugar market. Because most of these 26 countries are poor, developing countries that rely heavily on sugar exports, any such reduction in their sugar exports to the United States will have serious negative consequences for their economic well-being.

The importance of continued reasonable access to the U.S. sugar market for the non-CBI countries is illustrated well by the case of Mauritius. Mauritius is an island nation located in the Indian Ocean off the east coast of Africa. Since its independence from Great Britain in 1968, Mauritius has been governed by a parliamentary democracy and has maintained a close and friendly relationship with the United States. Like the United States, Mauritius has a free-enterprise economy and is dedicated to the fundamental principles of democracy and freedom, recognizing the necessity of free and open elections, freedom of the press and respect for human rights.

Mauritius is one of the most sugar-dependent countries in the world. With no natural mineral resources, Mauritius has for more than 200 years relied upon the production and export of sugar for its livelihood. Mauritius' dependence on sugar is due to climatic conditions, sugar cane being one of very few crops that can withstand the tropical cyclones that frequent this part of the world. As a result, approximately 90 percent of all arable land is devoted to sugar cane production. However, despite its small size, Mauritius is the second largest producer of sugar in the African region and among the top ten sugar exporters in the world. Moreover, because the

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[2] Copies of the testimony and comments of these countries were printed in Caribbean Basin Economic Recovery Expansion Act of 1987: Hearings on H.R. 3101 Before the Subcommittee on Trade of The Committee on Ways and Means of The House of Representatives, 100th Cong., 1st 2nd Sess. (1987-88).

[3] Ambassador Jesseramsing's March 8, 1989 letter is attached as Appendix B.

[4] A copy of the May 11, 1989 letter is attached as Appendix C.

[5] As noted above, it has been suggested that S. 504 be revised to guarantee at least 526,626 MT to the CBI countries.

vast majority of Mauritius' sugar crop is exported, Mauritius is particularly dependent upon continued access to its traditional export markets.

For decades, the United States has been one of Mauritius' most important export markets. Prior to the imposition of the U.S. sugar quota in 1982, sugar exports constituted 63 percent of Mauritius' total export revenues, making it the most sugar-dependent country included in the U.S. sugar program. Before the quota, Mauritius exported as much as 100,000 tons of sugar per year to the United States. Since the imposition of the quota, however, Mauritius' annual exports to the United States have been reduced dramatically. For example, at the beginning of 1988 Mauritius was assigned a quota share of only 8,400 tons—a reduction of greater than 90 percent in only six years. Today, even after the recent increase in the 21-month quota for 1989–1990 due to unusual weather conditions in the United States, Mauritius is allowed to export only 29,036 metric tons of sugar to the United States—on an annual basis, less than one-sixth the level of exports prior to the imposition of the quota.

The negative consequences on the economy of Mauritius of this drastic reduction in access to the U.S. sugar market cannot be overemphasized. More people earn their livings growing sugar in Mauritius than in the entire United States. Approximately 65,000 people out of a total population of slightly over one million-nearly 20 percent of total private sector employment in Mauritius-are engaged in occupations that are directly related to sugar production. Since the U.S. quota was imposed in 1982, however, more than 4,000 jobs have been lost in the Mauritius sugar industry.

The consequences of reduced access to the U.S. sugar market have hit directly Mauritius' numerous independently owned small- to medium-sized sugar farm operations. Unlike the sugar industries of many other countries, nearly half of Mauritius' sugar is produced by independently owned small- to medium-sized farms. There are currently approximately 35,000 such small- to medium-sized sugar farms in Mauritius, most of which are family owned. Sugar cane cultivation is the traditional and often the only livelihood for many of these farmers. Further reductions in their sales to the United States could seriously undermine not only their economic well being, but also their way of life.

The importance of sugar to Mauritius is not restricted to the agricultural sector of its economy. A sugar-based industrial development has taken place, as many local industries have been established over the years to meet the needs of the sugar industry. For example, businesses have been created to manufacture fertilizer, lime and other products required to produce sugar. Distilleries have been established to produce rum and perfume from the by-products of the sugar industry, and these new industries have provided significant additional employment opportunities. These industries, however, are substantially dependent upon the health of the sugar industry. As sugar export earnings decrease, employment in these related industries that depend upon sugar production will necessarily also decline.

Mauritius and the other countries that export sugar to the United States have already been injured by the progressive reduction in their access to the U.S. market. This damage will be seriously exacerbated if section 7 of S. 504 is enacted.

Indeed, S. 504 recognizes the potential for injury to the non-CBI sugar exporting countries, by providing that the President may enter into trade agreements with foreign governments for the purpose of granting compensation for countries suffering discrimination as a result of section 7. It is clear that for countries whose economies are highly dependent upon sugar, such as Mauritius, the remedy provided by this provision provides no relief at all from the impact of lost exports. As Ambassador Jesseramsing explained in his March 8, 1989 letter (Appendix B), Mauritius exports only one type of product to the United States other than sugar: textiles and apparel. It is highly unlikely that the United States would award trade compensation to Mauritius in the form of reduced tariffs or increased quotas for textiles and apparel products. Furthermore, even if such relief were granted, such compensation would do little to help sugar farmers and the employees of the sugar industry whose livelihoods would be directly affected by reduced sugar exports to the United States.

III. SECTION 7 OF S. 504 WOULD VIOLATE THE GATT

As the Subcommittee is aware, import quotas are permissible under Article XIII of the GATT only if (1) they are applied on a nondiscriminatory basis and (2) they are allocated among exporting countries on the basis of actual export levels during a representative base period. Although the current U.S. sugar quota satisfies these requirements, section 7 of S. 504 clearly would not. These concerns were previously raised by the Administration when this legislation (H.R. 1233) was before the House of Representatives. Ambassador Hills renewed these objections during her testimony before this Subcommittee on February 9, 1990.

Further, section 7 of S. 504 in its current form would violate the February 15, 1985 waiver the United States obtained from the GATT prior to implementing the CBI program. Because most-favored-nation treatment is one of the fundamental tenets of the GATT (see Article 1, section 1), the United States had to obtain a special waiver from the GATT to permit it to provide special treatment to the CBI beneficiary countries. In granting the United States permission to depart from the standard of nondiscrimination, the GATT expressly required that the sugar quota continue to be allocated on a nondiscriminatory basis:

> The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocations of sugar quotas.

GATT Decision of February 15, 1985, para. 4(i). Thus, because section 7 of S. 504 provides for the discriminatory allocation of the sugar quota, it would jeopardize the legitimacy of the entire CBI program.

CONCLUSION

For these reasons, the MSS respectfully requests that the sugar provisions contained in section 7 of S. 504 should be deleted from the bill to ensure the continued nondiscriminatory allocation of the sugar quota that is necessary to avoid injury to the majority of the countries participating in the sugar program and to adhere to the United States' obligations under the GATT.

Attachments.

December 1, 1987

The Hon. Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons,

We are writing to express our concern with Section 10 of the Caribbean Basin Economic Recovery Expansion Act of 1987 and its effect on other sugar quota countries. This provision specifies that the U.S. sugar quotas of CBI beneficiary countries be increased to their 1983/84 levels but does not state how this is to be accomplished. This is a critical point for our countries, since we supply the bulk of non-Caribbean sugar exports to the United States.

The intent of the bill is unclear. If the intent of the bill is to reallocate the existing quota to CBI beneficiaries, then our countries will be barred from the U.S. sugar market. In the 1988 quota year, such a CBI preferential quota would result in a reduction, probably to zero, for all other quota countries. If the intent is to maintain the current level of imports for all other quota countries while substantially increasing the level of imports from CBI beneficiaries, it would establish a preferential quota for CBI beneficiaries.

Our concerns are to ensure that (1) the U.S. sugar quota continue to be allocated on a non-discriminatory basis, consistent with the U.S. obligation under the General Agreement for Tariffs and Trade (GATT) as well as the terms of the waiver obtained by the U.S. for the CBI Program, and (2) U.S. imports of sugar be increased consistent with the U.S. commitment to trade liberalization and expansion.

Your legislation is significant in that it recognizes the importance of the U.S. sugar market to exporting countries.

However, it presently does not recognize the importance of the U.S. market to non-CBI quota countries. Sugar sales are of major importance to the economic and social well-being of our countries, just as they are to the nations of the Caribbean Basin.

Last July, we sent you a copy of a letter addressed to the Speaker of the House in which we pointed out how the U.S. sugar program negatively affects our economies. In that letter (copy enclosed) we expressed support for legislation that would liberalize the U.S. sugar market for all sugar exports to the United States. We reiterate that the only lasting way to solve the problems caused by the U.S. sugar program is to change the program with a view to restoring import levels of all quota countries.

We would welcome an opportunity to discuss our concerns with you.

Enclosure:
Letter to Congress
July 9, 1987

H.E. MARIO RIBADENEIRA, Ambassador of Ecuador

MR. ABDUL YUSUF, Charge d'Affaires of Fiji

MR. LUIS PAZ, Charge d'Affaires of Bolivia

H.E. F.R. DALRYMPLE, Ambassador of Australia

H.E. LEON M. RAJAOBELINA, Ambassador of Madagascar

MR. ABINANT NA RANONG, Charge d'Affaires of Thailand

H.E. VICTOR MOSQUERA CHAUX, Ambassador of Colombia

H.E. CESAR G. ATALA, Ambassador of Peru

H.E. CHITMANSING JESSERAMSING, Ambassador of Mauritius

MR. ALBERT BRA SARAKA, Charge d'Affaires of Cote d'Ivoire

H. E. MACILIO MARQUES MOREIRA, Ambassador of Brazil

MR. CARLTON DLAMINI, Charge d' Affaires of Swaziland

H. E. E.R.M. GARWE, Ambassador of Zimbabwe

MR. LONGAS SOLOMON, Charge d'Affaires of Papua New Guinea

MR. EDUARDO AIRALDI, Charge d'Affaires of Argentina

H.E. MARTOS MARTENEZ MEDIETA, Ambassador of Paraguay

Marcos Martínez Mendieta
Embajador del Paraguay

H.E. T.S. MANGWAZU, Ambassador of Malawi

H.E. HECTOR LUISI, Ambassador of Uruguay

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MW/XI/1

March 8th, 1989

Dear Chairman Gibbons,

I have the honour to refer to H.R. 1233, a bill to expand the Caribbean Basin Initiative ("CBI") programme. While this bill has numerous worthwhile provisions, I continue to be concerned regarding Section 7, the sugar provision.

I understand that this provision would guarantee the CBI beneficiary countries future access to the U.S. sugar market at a level no smaller than their 1989 quota allocations, which total approximately 400,000 short tons. The basic difficulty with this provision is that Mauritius and other non-CBI sugar exporting countries could witness a discriminatory decrease in the size of their quota allocations if the total quota falls below its current size in the future. Because most observers expect the sugar quota for 1990 will be set at a level substantially lower than the current quota, I view this provision as a very serious concern for Mauritius and the other developing non-CBI sugar exporting countries.

It would be inequitable and in violation of the principles of the GATT to provide such preferential access to the U.S. sugar market for the CBI beneficiary countries, while discriminating against Mauritius and other non-CBI countries. In essence, this provision would require Mauritius and other developing sugar exporting countries to foot the bill (through decreased sugar exports to the United States) for economic development in the CBI countries.

While I understand.../

While I understand that H.R. 1233 contemplates the possibility of providing compensation to countries injured by reduced access to the U.S. sugar market, I must point out that such compensation would be illusory in the case of Mauritius, which exports significant quantities of only one type of product to the United States other than sugar - i.e. textiles and apparel. While we doubt if the United States would award trade compensation to Mauritius in the form of reduced tariffs or increased quotas for our textile and apparel products, even such compensation would do little if anything to help our sugar farmers and the employees of the sugar industry whose livelihoods would be directly affected by reduced sugar exports to the United States.

Although I appreciate that the purpose of H.R. 1233 is to provide economic opportunities to a region that is admittedly important to U.S. foreign policy and strategic interests, I must respectfully point out that an equally compelling case can be made for Mauritius with regard to the Indian Ocean region. As you know, Mauritius maintains a friendly relationship with the United States, and is absolutely dedicated to the fundamental principles of democracy, free and open elections and respect for human rights. Our economic and political stability, however, is heavily dependent upon the health of our sugar industry, which is the cornerstone of our economy. Consequently, I fear that H.R. 1233 could have a very negative impact upon Mauritius and our economy.

I understand that H.R. 1233 is a modified version of H.R. 3101, which was introduced in the 100th Congress. H.R. 3101 also provided for preferential access to the U.S. sugar market for the CBI beneficiary countries. In response to that measure, on December 1, 1987, the Ambassadors of 18 sugar exporting countries (including Mauritius) wrote to you expressing our concerns regarding H.R. 3101's sugar provision. Furthermore, on September 15, 1988, the Mauritius sugar industry presented testimony before your subcommittee concerning the negative effects of the sugar provision of H.R. 3101 on Mauritus and other developing sugar exporting countries that are not CBI beneficiaries. Although the sugar provision has been modified, the concerns raised in these materials remain relevant to H.R. 1233. Accordingly, I am enclosing copies.

Instead of.../

Instead of penalizing Mauritius and other developing sugar exporting countries in order to provide enhanced access to the U.S. sugar market for the CBI beneficiaries, I respectfully encourage you either to

(1) provide direct economic assistance to the CBI countries, or

(2) consider legislation to reform basic U.S. sugar policy so that the CBI countries and all other sugar exporters can benefit on non discriminatory terms from increased sugar exports to the United States.

To require other developing countries to bear the burden of CBI development, however, is unfair.

I request that this letter and its enclosures be incorporated in the record of any hearing that are held on H.R. 1233. I appreciate your consideration of my views on this important matter.

Sincerely,

(C. JESSERAMSING)
Ambassador

Honourable Sam Gibbons
Chairman
House Ways and Means
Trade Subcommittee
2204 Rayburn House Office
Building
Washington, D.C. 20515-0907

MINISTRY OF AGRICULTURE, FISHERIES AND NATURAL RESOURCES
MAURITIUS

MAC/4270/19 11th May, 1989

Dear Chairman Rostenkowski,

I have the honour to refer to H.R. 1233, a Bill to expand the Caribbean Basin Initiative ("CBI") Programme which has now been reported to your Committee and wish to draw your attention to the adverse effects such a Bill, more particularly Section 7 thereof relating to sugar, can have on my country, Mauritius, already geographically disadvantaged because of its location away from its main markets.

Our case has already been laid before you by our Ambassador in Washington, H.E. Mr. C. Jesseramsingh, in his letter of the 8th March 1989. I would wish to emphasise that the economic and political stability of Mauritius, whose democratic traditions are cited as exemplary in this part of Africa and the Indian Ocean, heavily depend on the prosperity of the sugar industry.

We are very concerned therefore at future repercussions of H.R. 1233 on Mauritius and its sugar industry, should the Bill be adopted in its present form.

Mauritius used to export up to 100,000 tons of sugar annually to the U.S. market. Now, with the imposition of a quota, our export to this market is only around 12,000 tons. This significant reduction represents a shortfall of around Rs600 million or some 15% of our total earnings from sugar.

May I also draw your attention to the fact that Mauritius has, with World Bank assistance, undertaken a programme to restructure its sugar industry, to make it more efficient, and this programme takes into consideration the income derived from sales of sugar on the U.S. Market. Should such revenue decrease for any reason, it would have disastrous effects on the efforts Mauritius is making to surmount the economic problems it faces as a developing island country. Already, the sugar industry has felt the impact of the sizeable shortfall in revenue and much needed investments for the modernisation and rationalization of the industry have been delayed. As Mauritius has no natural resources of economic importance and because of the periodic cyclones which visit the island, sugar cane still remains the most suited cash crop, being more appropriate for the climate and more resistant to cyclones than other crops.

Further the Mauritian Society, especially in the rural areas, is still to a large extent organised around the Sugar Industry. Despite our effort at restructuration and diversification this will remain so for quite some time more. Any further reduction in our sugar export earnings could not only harm our economy but will have severe adverse repercussions on our social fabric and democratic set up.

The United States while promoting the interests of the CBI should ensure that the interests of other developing countries of Africa, including Mauritius, be safeguarded. You certainly know that Mauritius has maintained excellent friendly relations with the United States and shares the same views on international affairs especially on the concept of free economy, democracy and human rights.

I am confident that you appreciate our problems and that you will ascertain that the measures contained in Section 7 of the Bill do not harm our interests.

With warm regards.

Yours sincerely

Th. Dulloo
Minister of Agriculture, Fisheries and Natural Resources

Honourable Dan Rostenkowski
Chairman
Ways and Means Committee
U S House of Representatives
Washington, D.C. 20515-1308.

STATEMENT OF THE NETHERLANDS ANTILLES

I wish to express my thanks to the Chairman and the Members of the Subcommittee for this opportunity to comment regarding certain aspects of S. 504, the Caribbean Basin Economic Recovery Expansion Act of 1989, that are of particular interest to the Netherlands Antilles.

There are two specific items that concern us with respect to the proposed legislation. These are:

(1) The status under the Caribbean Basin Initiative (CBI) Program of beneficiary country petroleum and petroleum product exports to the United States; and
(2) access under the CBI to educational and scholarship assistance.

Unlike other beneficiary countries, the Netherlands Antilles is not in a position to take advantage of expanded opportunities that the CBI may offer by facilitating U.S. imports of traditional regional products like sugar or textiles. Our most immediate and practicable opportunity for taking advantage of benefits available under the Program resides in petroleum and petroleum products.

Though Section 213A of S. 504 includes "petroleum, or any product derived from petroleum," in the list of special category articles which may be accorded duty-free quota status if certain conditions are met, we believe the proposed statutory scheme involving a two-tier system of individual and aggregate quotas through which duty-free status would be granted is needlessly complex. We note that similar provisions in the House version of this legislation considered last year were, at the suggestion of the Administration, removed in favor of a less complex duty preference approach that reduced applicable most-favored-nation (MFN) duty rates on petroleum and petroleum products by fifty percent while, at the same time, completely eliminating any quantitative restrictions.

Unfortunately, controversy over portions of the bill dealing with textiles led the House Ways & Means Committee to delete most of the provisions extending preferential duty treatment to products currently excluded under the CBI from eligibility for such treatment. In any event, we believe the fifty percent reduction in applicable MEN rates approach is preferable to the dual quota system proposed in S. 504.

Given the intent and the purpose of the CBI to provide trade and development opportunities for all beneficiaries, I respectfully urge that the Congress make reasonable modifications to the proposed legislation that will take due account of Netherlands Antilles' special interests and circumstances with respect to petroleum and petroleum products. This would enable the Netherlands Antilles to obtain CBI trade benefits which it is not in a position to obtain through other means.

We also believe the recent December heating oil price surges in the U.S. underscore our position that liberalized access to the U.S. market for our petroleum products would help address certain problems underlying those price increases. The recent heating oil price problems in the U.S. at least partially reflect certain structural imbalances in the distribution of refinery capacity that leave regions like the East Coast vulnerable to supply pressures on price in times of unexpected or unanticipated demand. The East Coast is relatively lacking in refinery capacity and heavily dependent on imports.

Imports from CBI beneficiaries offer means for helping to ameliorate this situation. For example, petroleum products exported to the U.S. from the Netherlands Antilles are marketed almost exclusively in the East Coast. Approximately 75% of our exports to the U.S. consist of fuel oils. Thus, we represent a source of additional supply directed at areas that need it.

At the same time, however, petroleum imports from the Netherlands Antilles represent no threat of competitive harm to any U.S. interest. Our exports account for less than one percent of total East Coast demand and less than two percent of total imports into the region. U.S. refiners, concentrated along the Gulf Coast, are operating at full capacity and, as recent events illustrate, are making healthy profits.

Based on historical import levels, a 50-percent reduction under the CBI in the duties currently applicable to petroleum products exported to the U.S. from the Netherlands Antilles would represent slightly less than $1 million per year. In our view, this is a small price to pay for helping ensure additional petroleum supplies in areas of the U.S. that need them, while simultaneously providing the Netherlands Antilles its only real and immediate opportunity to participate in the CBI on an equal footing with other beneficiaries. Given the vital importance to the Netherlands Antilles of this issue, we hope that the Committee will support including provisions in the CBI expansion legislation now before you that would modify the current exclusion of petroleum and petroleum products from eligibility for preferential treatment under the Program.

We also believe the CBI could serve as a vehicle for facilitating the access of certain beneficiary countries to educational and scholarship assistance available under existing U.S. programs providing such aid to developing countries. As I am sure you would agree, education is an essential element in economic development. We will not be able to carry forward on our plans to improve and diversify our economy without people who have the skill and knowledge needed to administer, operate and maintain the necessary systems and structures.

As currently administered, however, the programs noted are not available to the Netherlands Antilles and certain other CBI countries. This is because the criteria for obtaining the "developing country" status needed to qualify for these programs are based on mechanical formulas that do not take sufficient account of an individual country's specific development needs such as diversification, infrastructure improvement and wider income distribution. Expanded educational opportunities are an important factor in addressing these kinds of developmental needs.

Since Congress has in the past expressed its special concern over meeting educational assistance needs in the Caribbean region by specifically allocating a significant portion of foreign educational assistance to the region, and since it continues, through S. 504 and other measures, to act on these concerns, we believe it would be in keeping with these purposes to make educational assistance available to all CBI beneficiaries. This could be done by clarifying that CBI beneficiary status automatically qualifies a country as a developing country for purposes of eligibility for educational assistance under programs such as those I have noted.

It is clear both from the original CBI legislation and the measures now before you to expand the Program, that Congress perceives that the U.S. and the countries of the Caribbean region have a strong common interest in assuring that all countries concerned derive the greatest possible degree of mutual benefit by developing a program that considers the character and nature of the individual beneficiary countries and pays careful attention to their unique capabilities. On this basis, we believe firmly that failure to include modifications in the CBI Program along the lines of those discussed here would effectively deny the Netherlands Antilles a reasonable opportunity to participate in the program and to obtain the full range of benefits from such participation which we reasonably could expect to achieve. Therefore, we respectfully urge that you give serious consideration to using S. 504 as a vehicle for implementing these proposals.

We thank the Chairman and the Members of the Trade Subcommittee for this opportunity to present the concerns and views of the Netherlands Antilles regarding S. 504. We believe the specific provisions we have suggested for inclusion in this legislation will serve both the particular interests of the Netherlands Antilles in becoming a full participant in the CBI Program and the overall interest of Congress in expanding the scope of the CBI Program to afford all beneficiaries the opportunity to derive meaningful economic, trade and development benefits from the CBI.

Statement of Papua New Guinea

This statement is to formally register the Government of Papua New Guinea's grave concern on the proposed legislation being considered by the U.S. senate Committee on Finance on the Caribbean Basin Initiative II (CBI II) relating specifically to the provision on sugar which specifies the establishment of a guaranteed minimum access level of sugar import from CBI beneficiary countries and would reallocate shortfalls to the Caribbean Basin countries.

The Government of Papua New Guinea sympathetically understands the objectives of the sponsors of this proposed provision of the legislation. We are however, concern that its adoption will be critical and adverse to the future development of our domestic sugar industry and could consequently impact on the bilateral trade and commercial relations with the United States.

We are totally convinced that an affirmative decision by the U.S. Senate Committee on Finance on the sugar provision would be critical because the sugar industry in Papua New Guinea is an important income generating industry to the national economy. It generates about $3.5 million each year in foreign exchange earnings to the National economy and provides about 2,600 jobs directly and indirectly supports over 6,000 Papua New Guineas employed in other linkage industries.

The direct and indirect impacts on the adoption of the sugar provisions of the CBI II Bill will therefore be far reaching for Papua New Guinea and for that matter other non CBI countries.

Papua New Guinea is concerned that if the sugar provisions of the Bill is endorsed, it will not only set a precedent but also establish a preference by the United

States for sugar import from the Caribbean Basin Initiative countries. Consequently, it would totally eliminate the U.S. sugar import from non-Caribbean countries including Papua New Guinea.

Moreover, the adoption of the sugar provisions in the CBI II Bill would contravene and violate Article X1II of the GATT and equally important violates the united States obligations under the GATT waiver not to implement its sugar quota in a discriminatory manner.

Such actions will be considered by the international community including Papua New Guinea contradictory to the United States commitment to trade liberalization and expansion. Moreso, it will be counter to the spirit of Uruguay rounds of negotiations on multilateral trade liberalization.

Papua New Guinea and other non CBI countries fully recognize that the proposed legislation on sugar is significant. Among others, it totally recognizes the importance of the United States sugar market to many exporting countries such as Papua New Guinea. We, however, believe that the legislation at the same time does not recognize the importance of the U.S. market to the non-CBI quota countries whose, sugar sales to the United States are crucially important to their economic and social well being, just as they are to the nations of the Caribbean Basin.

It is on this basis, and also in the spirit of harmonious liberalize international trade and economic co-operation between the United States and other trading partners that Papua New Guinea wishes to re-affirm its concerns that the U.S. sugar quota should continue to be allocated on a non-discriminatory basis.

Papua New Guinea therefore urges the Committee in its deliberation on this issue to ensure that U.S. Government maintain its sugar quota allocation on a non-discriminatory basis so that it will be consistent with the U.S. obligations under the General Agreement for Tariffs and Trade (GATT) as well as the waiver it obtained for the program.

Papua New Guinea is confident and hopeful that the subcommittee on International Trade of Committee on Finance, United States Senate will see its way through in arriving at an acceptable legislation in respect of the proposed sugar sections of the CBI II Bill which would be acceptable to all the parties concerned.

Statement of Petrojam Ltd.[1]

This submission sets forth the statement of Petrojam Ltd. ("Petrojam") regarding proposals to amend the tariff provisions on fuel ethanol imports from Caribbean Basin Initiative countries. Petrojam respectfully requests that this statement be included in the printed record of the February 9, 1990 hearing of the Subcommittee on International Trade of the Committee on Finance of the United States Senate.

I. SUMMARY OF COMMENTS

Petrojam respectfully requests that the provisions of the Steel Trade Liberalization Act of 1989 ("STLA") relating to fuel ethanol produced in the Caribbean Basin be made permanent. Such action is appropriate and necessary for the following reasons: (1) the domestic content requirements set forth in the ethanol-related provision of STLA were established as the result of extensive hearings before this Committee and negotiations between the domestic and Caribbean ethanol-producing industries; (2) the compromise which resulted from these efforts was anticipated as a permanent solution to this issue and was supported by all parties in the process; (3) the compromise reflected in STLA achieves the objectives of the Caribbean Basin Economic Recovery Act ("CBERA") to create employment and economic development opportunities in the Caribbean Basin without threatening the development and viability of a strong domestic ethanol industry; and (4) making the ethanol-related provisions of STLA permanent is essential to further capital investment by Petrojam and other producers of fuel ethanol in the Caribbean Basin.

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[1] The following material is being disseminated by Collier, Shannon Scott, 1055 Thomas Jefferson Street, N.W., Washington, D.C. 20007. Collier, Shannon Scott is registered with the Department of Justice, Washington, DC, under the Foreign Agents Registration Act as an agent of Petrojam Ltd. Petrojam Ltd., a corporation wholly-owned by the Government of Jamaica, can be reached at 96 Marcus Garvey Drive, Post Office Box 241, Kingston Jamaica. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of this material by the U.S. Government.

II. BACKGROUND

Petrojam is a wholly owned subsidiary of the Petroleum Corporation of Jamaica ("PCJ"). PCJ was formed in 1979 for the purpose of increasing Jamaica's self-sufficiency in energy. PCJ's charter calls for it to explore for and develop Jamaica's indigenous energy resources, pro mote and encourage the national development of these resources, and promote technological development in Jamaica while protecting the environment.

Petrojam was formed following PCJ's acquisition in October 1982 of Esso West Indies Ltd.'s hydroskimming refinery located in Kingston Harbor, Jamaica. Petrojam is engaged in the procurement, refining, and marketing of energy products, including ethanol, in Jamaica and overseas. Petrojam is also the parent of Petrojam Ethanol Ltd. ("Petrojam Ethanol"), which operates Petrojam's ethanol production facilities in Jamaica, and of Petrojam Belize, which operates Petrojam's ethanol-related facilities in Belize.

Finally, in 1987, Petronol, Ltd. ("Petronol") was formed as a wholly owned subsidiary of PCJ. Petronol's purpose is to operate the sugarcane fields, cane processing factory, and distillation facilities in Jamaica (located at Bernard Lodge Sugar Plantation) and to produce the hydrous ethanol which Petrojam Ethanol will dehydrate and export to the United States market.

While the PCJ group of companies operate on a for profit basis, their underlying purpose is to serve a second highly important role, namely, to promote the economic welfare of Jamaica itself. The companies operate both to achieve greater energy independence for Jamaica and to promote economic development of the country through diversification of its traditional agricultural economy. Because the companies are not driven by strict profit maximization principles, they engage in certain activities that profit maximizing firms might not pursue. For example, through its ethanol project, Petrojam is committed to utilizing the highest level of indigenous employment, maximizing economic benefits to Jamaica, and earning a profit on its sales without accepting subsidies.

To meet the not always compatible objectives of economic development and profit, Petrojam has chosen to develop its potential to produce fuel ethanol, with the specific purpose of selling in the U.S. market. Jamaican production of ethanol held promise first and foremost because of the duty-free status afforded imports under the Caribbean Basin Initiative ("CBI") legislation. At the time of Petrojam's decision to enter this market, the local content requirements under the CBERA—35 percent value added—permitted the company to sell its product in the United States profitably.

Petrojam supports making permanent the tariff exemption and domestic content requirements enacted under STLA. These requirements will permit Petrojam to operate profitably and promote economic development in Jamaica. Petrojam's ethanol operations are precisely the kind of activity that CBERA was designed to promote in order to secure economic development and political stability in the region. Petrojam's operations provide significant current and prospective employment opportunities for Jamaicans. The domestic content requirements allow Petrojam some flexibility in its choice of suppliers based on market realities. Finally, Petrojam's ethanol operations do not threaten the domestic ethanol industry because the volumes produced in CBI countries is minimal when compared to the domestic market in the United States.

III. STLA'S PROVISIONS REFLECT A CONSENSUS RESOLUTION OF THE CARIBBEAN ETHANOL ISSUE

The ethanol-related provisions of STLA reflect a compromise solution to the Caribbean ethanol issue. This compromise was achieved after extensive hearings and intense negotiations between representatives of the domestic and Caribbean ethanol-producing industries. Most importantly, all of the participants in this process anticipated and agreed that the domestic content requirements contained in this compromise were appropriate and would be made permanent.

Circumstances beyond the control of the parties involved in the resolution of this dispute forced an amendment to the compromise which made its provisions applicable for only two years. However, at the time of STLA's enactment, it was the clear understanding that making permanent the STLA's ethanol provisions would be addressed promptly and that the support of the domestic and Caribbean industries for such action would remain unchanged. Thus, prompt action to fulfill the expectation of all parties that the compromise would be a permanent solution to this issue is entirely justified.

IV. THE PETROJAM PROJECT CREATES EMPLOYMENT AND OTHER ECONOMIC BENEFITS IN JAMAICA WITHOUT THREATENING THE DOMESTIC ETHANOL INDUSTRY

Petrojam's fuel ethanol project is an integrated operation that employs directly or indirectly over 2,000 individuals in Jamaica. This amounts to one-tenth of one percent of Jamaica's entire population. The Petrojam ethanol project is not designed as an alternative to the world sugar market. Rather, because of Jamaica's unfortunate competitive posture in the world sugar market, fuel ethanol is to be the exclusive outlet for the cane production dedicated to it. The facilities rehabilitated and operated by Petrojam were in disuse prior to the project assuming the operation. Similarly, the individuals employed were either totally unemployed or underemployed. This project has therefore created employment in Jamaica equivalent for that country to employment of 2.4 million individuals in this country. This employment is extremely significant to the stability of the Jamaican economy.

Petrojam's project will provide other economic benefits such as lower costs through ancillary projects and increased foreign exchange. Petrojam has to date invested in excess of $20 million (U.S.) in the project. The project currently consists of a renovated and replanted sugar estate and factory at Bernard Lodge where Petrojam is not only actively cultivating sugarcane but is also experimenting with alternative sources of feedstock, such as sweet sorghum and specialized cane varieties, to maximize domestic supplies of feedstock. In addition to the growing operation, Petrojam has renovated the Bernard Lodge sugar factory and has installed a fermentation and distillation facility to convert domestic feedstock into hydrous ethanol. The final stage of the project involves Petrojam's operation of its anhydrous distillation facilities which convert hydrous ethanol to anhydrous, fuel quality, ethanol.

In addition to the facility described above, the project contemplates the operation of an electricity-generated facility to be fueled by the consumption of bagasse, an animal feed facility employing the spent yeast from the distillation process, and other ancillary operations designed to lower Petrojam's cost, and generate foreign exchange by decreasing Jamaica's dependency on foreign petroleum, animal feed, and fertilizer imports.

Each of the additional facilities contemplated within the completed Petrojam fuel ethanol project represents more Jamaican and Caribbean-based employment, economic development, and diversification away from traditional agriculture—exactly the kind of activity the CBERA legislation seeks to promote. However, that entire process, with all its intended potential, is dependent on the sale of fuel ethanol in the U.S. market. Since Caribbean ethanol must be able to compete for U.S. sales with its economic substitute, gasoline, the domestic content levels are extremely important and can effectively stop Petrojam's backward linkage strategy and thwart development not only in Jamaica but also in Belize—another CBERA country where Petrojam has sited another facility similar to those currently in place at Bernard Lodge.

Petrojam's use of non-Caribbean Basin feedstocks reflects the simple economic reality that no entity can consistently sell a product at levels dramatically below its cost and continue to function economically. The use of non-Caribbean Basin feedstocks is mandated by prices in the U.S. market. Should those prices permit the use of additional Caribbean Basin feedstocks, Petrojam will immediately act accordingly to facilitate the achievement of its objective of maximizing employment opportunities as well as maximizing the economic benefits of the ancillary operations which are dependent upon the use of Caribbean Basin feedstocks.

Both the International Trade Commission and the Government Accounting Office have issued studies that demonstrate conclusively that existing facilities for the production of Caribbean fuel ethanol have not, do not, and will not threaten the economic viability of U.S. ethanol producers and their suppliers. The fact is that the domestic market for ethanol currently reflects levels of demand which exceed existing U.S. production. Moreover, some markets served by Petrojam are areas not currently adequately served at this time by U.S. producers.

V. MAKING THE ETHANOL-RELATED PROVISIONS OF STLA PERMANENT IS ESSENTIAL TO FURTHER CAPITAL INVESTMENT IN THE CARIBBEAN BASIN

As noted above, the Petrojam project is designed to be a fully integrated operation which, in addition to fuel ethanol, produces animal feed, electricity and other products. The production of feed, electricity and other products will achieve two important objectives: (1) a reduction of Jamaica's dependence upon imports of foreign petroleum and other products, thereby enhancing Jamaica's foreign exchange position, and (2) a reduction in the project's production costs for ethanol, thereby permitting Petrojam to use increased amounts of Jamaican produced feedstocks. However, com-

pletion of the project will require significant additional capital investment for equipment such as generators.

As the Committee is aware, uncertainty over U.S. treatment of Caribbean ethanol has had the effect of freezing investments in Caribbean ethanol production. The two-year period for which STLA provides is inadequate to justify the additional capital investment necessary to complete the Petrojam project. Making the provisions of the compromise permanent will eliminate this restriction and permit completion of the project and fulfillment of its entire potential for employment and economic productivity.

VI. CONCLUSION

In conclusion, Petrojam urges Congress to make permanent the tariff exemption and domestic content level requirements for CBI ethanol set forth in STLA. Petrojam has invested over $20 million in scarce foreign exchange resources in this project in light of the promise of CBERA. The project has created thousands of jobs and generated the opportunity for diversified, productive economic activity in the Caribbean Basin. It is the moral obligation of a great country to keep its promise to those who have acted in the manner in which that promise was offered to induce.

Jamaica has been a reliable trading partner of the United States. The promotion of additional productive economic activity in Jamaica, via the vehicle of CBERA, will provide Jamaica with the wherewithal to build on that historic relationship. Petrojam's fuel ethanol project has created the single biggest employment opportunity in Jamaica heretofore generated by CBERA. Petrojam respectfully requests that the promise of this project and the mutual benefits which it can produce for both Jamaica and the United States not go unfulfilled.

Statement of the Philippine Sugar Regulatory Administration

SUMMARY

For almost eighty years the United States has maintained a unique sugar trading relationship with the Philippines. U.S. policy encouraged the growth of the Philippine sugar industry, its development as a vital source of employment and export earnings, and its strong dependence on the U.S. market. This unique relationship suffered serious damage in 1974 and again in 1982 when U.S. policy decisions severely disrupted long-standing and trusted trading relationships.

The bill under consideration by the Committee, S. 504, represents an opportunity to restore the United States in its historic role as a reliable and dependable market for Philippine sugar exports. The Philippine Sugar Regulatory Administration respectfully suggests that the ends of basic fairness as well as U.S. policy objectives would both be served by including the Philippines within the group of countries to be granted guaranteed quotas under section 7 of the bill.

THE HISTORY OF U.S.-PHILIPPINE SUGAR TRADE

As set forth in Attachment I, the United States has had a sustained relationship with the Philippine sugar industry. By the early twentieth century this involvement had developed from a purely commercial relationship to one in which U.S. policy actively encouraged the development of the sugar industry in the Philippines. As a result the Philippines became a major supplier of sugar to the United States. From the 1930's until 1960, virtually all U.S. origin imports were supplied by the Philippines and Cuba. After Cuba was excluded from the U.S. market, the Philippines remained the dominant supplier. On average, Philippine sugar accounted for about 28% of U.S. imports in the period 1961-1974.

In 1974, the expiration of both the Laurel-Langley Trade Agreement and the U.S. Sugar Act led to devastating consequences for the Philippine sugar industry. At that time Philippine sugar production had reached 2.7 million tons, of which over 1.5 million tons was exported to the United States. Almost overnight the Philippine sugar industry was taken from a secure and formally established trade relationship and thrown into the volatile and generally depressed free-world sugar market of which the U.S. had then become a part.

The Philippines was forced to sell in any and all markets at the best price obtainable. The volume of Philippine sugar exports to the U.S. fluctuated widely from year to year following the fluctuations in prices, and declined to 13.5 percent of total U.S. imports for the seven years preceding 1981.

In May 1982, the U.S. reinstituted the system of country quotas for foreign sugar as an emergency measure designed to protect its domestic industry. Under the new

program the U.S. import requirements were prorated to foreign suppliers on the basis of their export performance during the period between 1975 and 1981, inclusive, excluding the years of the highest and lowest entries. On this narrow and non-representative basis, the Philippines was allotted a 13.5 percent share of the U.S. import sugar market, ranking third after the Dominican Republic and Brazil with 17.6 percent and 14.5 percent shares, respectively.

This Presidential action was later written into the law. Viewed in the light of U.S. policy and the historical position of the Philippines as a sugar supplier to the U.S., it was manifestly unjust that the allocation of Philippine quota under the 1982 U.S. Sugar Program arbitrarily was made on the basis of the exports during the highly unusual 1975 to 1981 period. This decision, like the 1974 expiration of the Sugar Act, had devastating consequences for the Philippine sugar industry and its workers. Production fell by 50 percent, mills closed and the remainder operated much below capacity. Thousands of mill and farm workers became jobless. Enormous social discontent and economic suffering followed.

Modest relief from this devastation was obtained in 1986 when the Congress saw fit to provide the Philippines with an increase in percentage share—the 2.3 percent South African quota.

This equitable restoration of some of the Philippine historic share could well be threatened by one of the provisions of S. 504. Section 7 of S. 504 provides guaranteed quota levels for beneficiary countries of the Caribbean Basin Initiative (CBI) some of which already have access for over one half million tons to the high priced EEC market. This discrimination in favor of the CBI countries is discrimination against the Philippines: if U.S. quotas are reduced in the future, the Philippine share would be disproportionately and discriminatory reduced or eliminated.

While U.S. sugar quotas have begun to expand from the low point reached in 1989, experience has demonstrated over and over again that sugar prices and quota levels are capable of dramatic and rapid change, resulting from a variety of conditions affecting the U.S. and international markets.

In November 1975, the world raw sugar price was 57 cents per pound. A year later, the price was 13 cents per pound. When the U.S. reintroduced sugar import quotas in 1982, they were set at about 2.8 million tons per year. By 1988, they were approximately one-fourth that level, and all indications were that they could be farther reduced. USDA's Sugar and Sweetener Report published in March 1989 projected increased U.S. sugar production in 1989 over 1988 levels and further quota cuts were anticipated.

By the end of 1989, however, the quota levels were on the rise again. Weather and other factors had caused reductions in the U.S. crop. In September 1989, the quota year was extended for nine months, until September 30, 1990, and the quota level was raised. This action was followed by further quota increases in November 1989, and again in January 1990. In one year, import requirements had changed dramatically.

If, however, the current trend is reversed, enactment of this bill could become a devastating blow to the Philippine economy, already weakened by past misfortune and mismanagement and burdened with service on a foreign debt of more than $26 billion.

THE PHILIPPINE POSITION

S. 504, particularly section 7, represents a valuable opportunity to restructure the U.S.-Philippine sugar-trading relationship and to repair some of the damage done to larger U.S. policy interests by the decisions and events described above.

The U.S. today has no higher priority in East Asia than fulfilling its commitment to democracy in the Philippines. The success of the democratically elected Aquino Government, and the deepening and strengthening of democratic institutions in the Philippines, depend to a large extent on the ability of democratic government to improve the Philippine economy and improve the standard of living of the Philippine people.

To accomplish these goals, it is essential that the U.S. remain a viable and stable market for Philippine sugar exports. The health of the Philippine sugar industry is central to the health of the Philippine economy. The industry employs close to one half million workers. As we all know, poverty and joblessness are the fertile ground on which insurgency thrives.

Sugar exports are also a primary source of export earnings for the Philippines. Foreclosure or reduction in access to the U.S. market will seriously erode export earnings and make it substantially more difficult for the Philippines to meet its debt obligations.

The Philippine Sugar Regulatory Agency respectfully suggests these concerns could be addressed by including the Philippines in the list of countries for which guaranteed quotas would be established in the proposed legislation. The Commission applauds the co-sponsors of S. 504 for recognizing the extreme hardship and devastating impact which have resulted from recent U.S. sugar policy, but respectfully suggests that no country has been more negatively affected than the Philippines. Given the history of the U.S.-Philippine sugar trading relationship, U.S. policy interests, and the current efforts being made in the Philippines, it is essential that the Philippines be made a beneficiary of any program guaranteeing access to the U.S. sugar market.

At the same time, the Philippine Sugar Regulatory Administration supports continuing the sugar import policy under more favorable terms and conditions, assuring the equitable participation of friendly, efficient sugar-producing countries in supplying the U.S. sugar market. Such a policy would serve the treble purpose of promoting economic well-being and political stability in poor but friendly countries; giving those countries a chance to earn the hard currency they need to service their debts and import from the United States the agricultural products and capital goods they need for their own growth and development; and assuring Americans a stable, adequate supply of sugar at a reasonable price.

We thank the Committee for the opportunity to present our views.

ATTACHMENT

1796—U.S.-Philippine sugar trade commences
1880-1890—Philippine sugar exports to U.S. average about 125,000 tons, 58% of all exports
1909—Payne Aldrich Tariff Act provides duty free entry of up to 300,000 tons of Philippine sugar
1913—Underwood-Summers Act provides unlimited free trade in Philippine sugar exports to U.S.
1933—Philippine sugar exports to U.S. reach 1.25 million tons
1934—With passage of Philippine Independence Act duty free entry of Philippine sugar reduced to 980,000 tons
1934—Jones Costigan Act
1937—U.S. Sugar Act—maintains duty free quota of 980,000 tons for Philippine sugar
1930-1959—Philippine share of U.S. import market averages 28.13 percent, Cuban share averages 69.17 percent, other suppliers average 2.7 percent
1960—Cuban sugar excluded from U.S. market, and its share is redistributed almost exclusively to non-Philippine, third country suppliers
1962—Sugar Act Amendments grant Philippines a modest quota increase of 70,000 tons
1965—Sugar Act Amendments grant Philippines a basic quota of 1,050,000 tons plus 47.22 percent of deficit prorations
1971—Sugar Act Amendments grant Philippines a basic quota of 1,126,000 tons plus 30.08 percent of deficit prorations
1960-1974—Philippines is largest sugar exporter to U.S. market, averaging 27.61 percent of U.S. imports. U.S. is largest Philippine market accounting for 95 percent of its exports
1974—Laurel Langley Trade Agreement expires. U.S. Sugar act expires—Philippine sugar exporters suddenly forced to sell on newly unregulated world free market
1974-1981—Philippine share of U.S. import market declines to 13.5 percent
1982—U.S. sugar quotas reintroduced with country allocations made on basis of 1975-1981 export performance. Philippine share established at 13.5 percent.

STATEMENT OF PRINCE GARDNER, INC.

I am Dennis Beardall, President of Prince Gardner, which is a sixty-six year old St. Louis-based company, and the largest U.S. manufacturer and distributor of small leather goods. I am also a Director of the Luggage and Leather Goods Manufacturers of America. Prince Gardner employs over 1,000 employees nationwide—200 at our St. Louis headquarters and another 800 in our three manufacturing facilities in Arkansas. We also have a nationwide network of sales representatives.

I am grateful for the time you have given me today, and I will keep my remarks brief.

I am really here for two reasons. First, I am completely befuddled as to why the House-passed CBI bill serves up my small product sector—and my product sector

alone—as the only area where duty preferences for Caribbean will be expanded. All the other originally excluded product sectors—textiles, footwear, petroleum, and tuna—were eventually dropped from House-passed bill, meaning they were permitted to keep their current full duty rates.

Leather-related products, such as the billfolds and other flat goods made by my company, are certainly as hard hit by imports as these other products—and in the case of petroleum and tuna, quite a bit more—but for some reason, leather products are singled out in the House bill. There is no explanation why the House took this action. It's a mystery to me, and I am at a loss to explain it to my employees. Furthermore, if the products I make are fabricated of textiles Instead of leather, they will be exempt from the House bill. Given these circumstances, I am here today to ask the Committee to please remedy the serious oversight and inequity in the House bill.

I happen to believe that textiles, footwear and leather-related products were originally excluded from the duty preferences of CBI I for a very good reason. That reason was import sensitivity. And if that was a valid reason back in 1983 when Congress passed the original CBI, it is even more so today. In my own industry alone, imports have more than doubled since CBI was passed. They now have almost half the U.S. market. The Caribbean has shared in this growth.

The other reason why I am here today is to let you know what effect this proposal will have on me as a businessman, who is committed to domestic manufacturing. Why am I concerned about proposals to grant tariff preferences on competing products from the Caribbean? It is really very simple. If you cut the flat goods duty rate from 8 percent to 4 percent, followed by still further duty reductions that may result from the Trade Round, my profit margins start disappearing. It makes my efforts to compete against imports as a domestic manufacturer of these products even more difficult than is already the case.

If there is any question in your mind as to the ability of the Caribbean to become a major supplier of leather-related products, let me answer that now. Far Eastern investment is moving swiftly into the Caribbean. Labor in the Caribbean is cheaper than in Korea and Taiwan, and proximity to the U.S. market is also a big lure. It should be noted that these same Far Eastern countries that represent such a substantial investment in the Caribbean are the very ones that now have the dominant share of imports in the U.S. market for leather products.

You can understand why this situation has my full attention. We are going to have a difficult enough time as it is given the current circumstances. Adding a duty incentive to this equation spells disaster for U.S. industries such as mine.

I had planned to open a fourth factory in Arkansas this year. It's a closed-down shoe factory in Osceola. I would be hiring some 300 to 500 people to work there. I don't know how I can reopen this factory if this CBI proposal to cut leather product tariffs is passed by Congress. If it is passed, I believe I may have no choice but to cut back on my domestic manufacturing and move more of my sourcing offshore. Under the circumstances, it would be a correct business decision, but it would not be one I would make gladly.

I want to continue to manufacture in this country. We have terrific workers. Our payroll plays an important role in the communities where we are located, particularly in rural parts of Arkansas. So you can see how your decision will affect at least one manufacturer. Other leather goods manufacturers will face similar choices if the CBI preferences for leather-related products are granted.

In conclusion, I hope that you and your colleagues will leave the present CBI product exemptions intact. They were put in the original CBI for good reason, and it would be a real hardship to industries such as mine if they were removed now. Thank you Mr. Chairman and members of the Committee. I will be happy to answer any questions.

Statement of the Puerto Rico Bankers Association

INTRODUCTION

Mr. Chairman, and Members of the Committee: My name is Helio Lima and I am the current President of the Puerto Rico Bankers Association ("PRBA"). With me is Mr. Arturo L. Carrion, Executive Vice President of PRBA. Let me first express my appreciation to the Committee for the opportunity to present the views of our organization regarding S. 504, "The Caribbean Basin Economic Recovery Expansion Act of 1989" ("CBI-II").

PRBA is the trade association that represents all commercial banks operating in Puerto Rico. Our members include U.S., Canadian, Spanish as well as locally-owned banks. PRBA has always articulated the concerns of the island's banking community before the Puerto Rican and Federal authorities. Our organization has a long history of appearances before your Committee on matters pertaining to taxation and trade.

We are here to restate the support given by PRBA to the objectives of the Caribbean Basin Initiative ("CBI") since the CBI legislation was first enacted in 1983. This support must be qualified, however, by our concern regarding the adverse consequences which the addition of certain items such as textiles, leather goods, and canned tuna to the list of duty preference items, will have on the Puerto Rican economy. Our testimony will therefore be divided into two principal themes: (1) concern for the economy of Puerto Rico, and (2) the contributions of Puerto Rico's financial sector to the success of CBI.

THE CARIBBEAN BASIN REGION

The nations and communities of the Caribbean Basin Region sorround a most beautiful emerald green body of water that gives the region its name. For centuries all were territories of the major powers of Europe who extracted their wealth under mercantilist colonial systems of government. The region has had a long and painful history of instability. Even before the first European conquerors settled the region, the Caribbean had been the stage for periodic violent upheaval. The introduction of slaves to work the plantations added to the ferment.

The gaining of independence by most of the island states in the region during the third quarter of this century has not resolved the underlying causes of the unrest—poverty, unemployment, drug-related crime and lack of opportunities. Already in recent years these islands in the sun have found themselves awash in a turbulence that threatens the security of the region and even of the United States. Cuba has suffered under a cruel communist dictatorship for 30 years; Marxist forces on Grenada had to be dislodged by force of arms; unrest in the Dominican Republic caused President Johnson to send our troops to that nation; and most recently, the drug-infested regime of General Noriega had to be removed from Panama. Unless the root causes of this turmoil are eradicated, we can continue to expect violence and misery to permeate the life of these communities with the attendant risks to our own nation.

THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT OF 1983

In recognition of the importance of the region to United States interests, Congress enacted the "Caribbean Economic Recovery Act of 1983" ("CBI-I"), a very generous and far-sighted piece of legislation. However, much to Puerto Rico's relief, duty free exemption or preferential duty rates on imports were not extended to textiles, apparel and tuna canning in CBI-I because they were found to be greatly import sensitive. Notwithstanding the exclusion of these products1 CBI-I has helped CBI nations diversify their economies and move away from their dependence on exports of traditional crops that are subject to the vagaries of weather and price fluctuation. They have rapidly developed other non-traditional industries to complement their traditional exports. Thus, United States imports of non-traditional products from the region increased by 75% from 1983 through 1988.

The pace of non-traditional export activity in the region is quickening; during 1989 non-traditional exports to the United States from the region increased by 28% from the year before. Puerto Rico's imports of non-traditional exports from CBI countries have increased by over 40% since 1984, representing a rate of growth that is twice as high as that for the United States. In fact, since 1988 the value of imported non-traditional products exported to the United States from the region has exceeded the value of traditional imports. Clearly the goals of CBI-I are beginning to be realized.

PRBA'S CONCERNS REGARDING THE ADVERSE EFFECTS OF CBI-II ON PUERTO RICO'S ECONOMY

In February of 1986, the House Ways & Means Committee held two days of oversight hearings on CBI-I. At that time PRBA and other trade associations representing the private sector of Puerto Rico articulated their views regarding the progress that had been made and suggested improvements in the legislation. During hearings before that committee in April of last year regarding H.R. 3299, companion CBI legislation introduced by Representative Gibbon in the House, PRBA again expressed their views, especially their concern over the addition of textiles, leather goods and

tuna canning to the list of items eligible for preferences. We were pleased when the House passed the bill but eliminated the addition of those items to the duty preference list.

The Senate version of CBI-II would include textiles, apparel, leather goods and tuna canning in the list of duty preference items. Needless to say, collectively, these industries account for one in three manufacturing jobs in Puerto Rico. Traditionally, they have been extremely import sensitive.

Inclusion of footwear products in the duty preference list would destroy the successful "twin-plant" footwear industry that has been developed by manufacturers that have established complementary plants in Puerto Rico and other Caribbean communities.

More than 33,600 persons representing 21.4% of the manufacturing labor force are engaged in the manufacture of apparel in Puerto Rico. Inclusion of apparel in the duty preference list, would result in the rapid elimination of these jobs, jobs which the island sorely needs and cannot replace.

The tuna-canning industry employs more than 7,000 persons in some of the most economically depressed communities of Puerto Rico. By adding tuna products to the duty preference list, the Committee would be insuring the relocation of this vital industry to CBI countries where they would pay lower wages and be subject to less stringent health, safety and environmental restrictions.

The import sensitivity of these industries was clearly understood by Congress in 1983 when CBI-I was enacted and by the House of Representatives last year when CBI-II was adopted. In recognition of this sensitivity, they excluded footwear, textiles, apparel, leather goods (in CBI-I) and tuna products. PRBA is of the view that those industries are no less import sensitive in 1990 than they were in 1983. In fact, in spite of their tariff protection, these industries have continued to experience reductions in levels of employment as a result of the rising tide of foreign imports. PRBA respectfully requests that this Committee not extend the duty preference to the above-mentioned industries.

CONTRIBUTION OF PUERTO RICO'S FINANCIAL SECTOR TO CBI

Puerto Rico's financial community has a long history of contributing to the region's economic development. PRBA members finance millions of dollars worth of pre-export and export credits to customers in the region each year. They discount a substantial volume of CBI-related trade paper and bankers acceptances issued by financial institutions in the region. PRBA members facilitate credit to Puerto Rico-based companies engaged in the manufacture of merchandise or the rendition of services to entities in the region. They similarly finance the importation of goods and services from CBI countries imported into Puerto Rico. They enhance the mobilization of credit throughout the region through a significant volume of letters of credit. They finance investment by local Puerto Rico companies in wholly-owned ventures within CBI countries.

PRBA members assist development in other ways. They provide advice to Puerto Rican exporters and importers. Through their correspondent relationships they are able to apprise customers of trade opportunities and secure local financing. They provide technical assistance and training to both private and public sector institutions as part of continuing interchange programs. They facilitate the flow of credit by exchanging credit information on potential customers. They participate in trade and export promotion fairs and programs designed to enhance interregional trade.

Puerto Rico's banking sector has engaged in significant financing activities in CBI countries in spite of the many unresolved country risk and regulatory problems. Currently financing facilities are being negotiated for a significant number of projects. It should be noted that the banking community would be willing to increase the volume of direct credit to entities located in CBI countries if several problems could be overcome. Neither banks in Puerto Rico nor their counterparts on the United States mainland have been able to resolve the country risk problem. Given the long record of political instability and high-risk investment climate in many of these countries, banks are loath to fund investments without acceptable assurances of repayment. Fluctuations in currencies raise another problem which hinders the flow of investment funds from Puerto Rican banks, as does the potential for imposition of exchange controls. While some of these risks may be partially insured through the use of hedging and political risk insurance, these partial solutions are expensive and may drive the cost of borrowing beyond the economic capacity of many borrowers to repay. Furthermore, because of the uncertainty surrounding this type of lending, it tends to receive inferior classification by bank examiners. The fact that Puerto Rico's banking system has already extended significant credit facili-

ties to entities in CBI countries in spite of these problems is a clear testament of their commitment to the goals of the CBI program.

Another major problem faced by Puerto Rican banks in making CBI loans is the apparent mismatching of maturities between deposits and loans. CBI loans are typically longer term, particularly if they are for development purposes. A substantial portion of the funding of Puerto Rican banks comes from companies that have qualified for treatment under Section 936 of the Internal Revenue Code of 1986, as amended ("§ 936 corporations"). Section 936 corporations that receive grants of tax exemption from the Government of Puerto Rico must pay a 10% tollgate tax on distributions of current income. They may reduce their tollgate tax rate by investing their accumulated earnings in eligible activities within Puerto Rico for a number of years. Section 936 corporations have taken advantage of this incentive and that has resulted in the creation of substantial pool of invested funds which is sometimes referred to as the "§ 936 funds market." Much of this pool of funds is deposited with PRBA members and currently accounts for over 40% of total bank deposits on the island. However, these deposits are generally very short term in nature—65% are for terms of 90 days or less and only 10% are for a year or over. Given the short term nature of these deposits, banks are not willing to use these funds for the purpose of lending on a long-term basis because they do not want to risk being accused of engaging in unsafe or unsound banking practices.

In spite of this problem of short maturities, the Puerto Rican banking community has provided medium to long term financing by relying on the stability of the § 936 pool. Bankers know that while there is a substantial churning of these funds as deposits mature and are replaced by new funds, there always appears to be a minimum amount of funds available. It is from this much smaller pool of funds that our banks have been willing to make the medium to long term loans. Obviously, there is a very strict limit as to the funding risk that our banks can bear from this type of lending.

LEGISLATIVE AND REGULATORY ACTIONS TAKEN BY THE UNITED STATES AND PUERTO RICO TO FACILITATE SEC. 936 INVESTMENTS IN CBI

PRBA has made extensive recommendations to the Government of Puerto Rico and to the United States Treasury Department for facilitating the extension of credit to eligible CBI borrowers. The adoption by Congress of Section 936(d)(4) as part of the Tax Reform of 1986 has made certain qualifying investments in certain CBI countries eligible for treatment as "qualified possession source income" and therefore eligible for the tax benefits of § 936. The Government of Puerto Rico has also adopted the required statutory and regulatory amendments enabling § 936 corporations and financial intermediaries to make loans and investments in eligible CBI countries. Several CBI countries have now ratified Tax Information Exchange Agreements with the United States and have thus become eligible to receive § 936 funding.

As a result of these actions, CBI-eligible countries have begun to receive § 936 funding. To date, 11 projects amounting to $275 million in § 936 funds have been approved and are in different stages of disbursement. Because of the many requirements of applicable Federal and Puerto Rico statutes and regulations1 which require that loans be made through financial institutions, special purpose financing entities had to be created to issue bonds that would be purchased by § 936 corporations, banks and other financial intermediaries. It is expected that the establishment by Puerto Rico's legislature of the new Caribbean Basin Project Financing Authority, will provide an efficient vehicle for issuing eligible project bonds that will be acquired by § 936 corporations, banks and financial intermediaries. In addition, a number of so-called "§ 936 Funds" have been proposed that would invest in these bonds and offer participations in their Funds to the public in the same way mutual funds do so currently. This would create a secondary market for project bonds issued in connection with financing of eligible projects.

CONCLUSION

PRBA members and Puerto Rico's financial community have made, are making, and stand ready to make even greater contributions to the economic development of the region.

In these fascinating times when the interest of our nation remains focused on developments in Eastern Europe, as the Iron Curtain disintegrates and freedom and democracy begin to blossom for those long-enslaved people, we must not lose sight of what is happening in our own backyard. Democracy is on the march all over Latin America, opening the door of opportunity to many people. In the 1989-1990 period,

free elections have been or will be held in 14 CBI countries. If we are to turn the Caribbean Sea into a truly "American Lake," we must continue to follow policies that lead to stability and progress in the region.

As we have seen, Puerto Rico and its financial sector are contributing greatly to the success of United States policy in the Caribbean. After all, we have perhaps the biggest stake in the successful outcome of the CBI Program. However, please bear in mind that Puerto Rico's desire to contribute must be tempered by the reality of our island's multiple needs. Puerto Rico is heavily populated, with a very high endemic unemployment, lacking in natural resources and with a per capita income of less than one third of the average for the nation.

You can do justice to the needs of the CBI region without doing injustice to the needs of Puerto Rico. Do not include apparel, leather goods and tuna products in the list of duty preference items. To do so would result in severe hardship for thousands of young people who would be thrown out of work in a community that can ill afford to lose a single job. Creation of jobs in Puerto Rico is extremely difficult and, unfortunately, because of geographic and cultural reasons, our unemployed cannot simply drive across the state line in search of another job. Those that have been forced to migrate to the mainland have suffered incalculably. The communities that have received these immigrants have had to bear the economic and social costs of their adjustment to the new environment.

Let us be generous but let us also be prudent. Let us be charitable but remembering that charity begins at home. In pursuing a charitable policy towards the region, the interests of the United States are not properly served if that policy is uncharitable to the best interests of Puerto Rico. Congress reached a wise compromise in CBI-I; we respectfully submit that conditions do not evidence any need to change that compromise.

EMBASSY OF THE REPUBLIC OF FIJI,
Washington, DC, March 2, 1990.

Hon. MAX BAUCUS, *Chairman,*
Subcommittee on Trade,
Senate Committee on Finance,
Dirksen Senate Office Building,
Washington, DC.

Re: Caribbean Basin Initiative Legislation S. 504 and H.R. 1233

Dear Senator Max Baucus: Further to your Subcommittee Press Release No. H-5 of January 26, 1990, we are writing on behalf of the Republic of Fiji and its sugar industry to express our concern with the provisions of this legislation that would provide more favorable U.S. sugar quota treatment for CBI countries at the expense of Fiji and non-Caribbean suppliers.

Fiji has been a reliable supplier of sugar to the United States for almost 30 years now and our economy is heavily dependent upon our sugar exports. Sugar is the prinicipal industry in our small island Republic, where it is produced on over 22,000 small farms averaging 10 acres each in size. Some 25 of our economically active population derive their income directly from sugar and our sugar industry's direct and indirect contribution to our economy approximates almost half of our country's total export and consequently is vital to the generation of the foreign exchange necessary to further our continued economic development and diversification programs.

We appreciate the fact that these CBI sugar quota proposals reflect Congressional concern with the disastrous effect that the sharp decline in U.S. sugar quotas is having upon the small sugar suppliers countries of the Caribbean, which like Fiji and other small non-CBI sugar suppliers, are highly dependent upon sugar revenues for economic and social well being. However, we believe that this problem can be more appropriately addressed by the adoption of the modifications in U.S. sugar import policy necessary to bring U.S. sugar import quotas into conformity with the GATT on a non-discriminatory most favored nation basis, rather than by taking U.S. sugar quota away from other small non-CBI supplying nations in order to provide additional sugar quota to CBI sugar suppliers.

Any way you look at it such action would not only be inherently unfair to Fiji and many other small non-CBI suppliers that have been supplying sugar to the U.S. for many years now, but inconsistent with U.S. obligations under the General Agreement on Tariffs and Trade and directly contravenes the terms of the waiver granted the U.S. for the CBI Programs.

Given the longstanding relationship of Fiji with the United States and the importance of sugar exports to the economic well being of our nation, we find it difficult to conceive that the United States would seriously consider, much less adopt, such discriminatory action against our small island Republic and other traditional non-CBI suppliers of sugar to the U.S. market. Such preferential treatment, for CBI sugar suppliers would not only constitute a further violation of the GATT obligations voluntarily accepted by the United States, but the direct favoring of some friendly supplying nations at the expense of others is so inconsistent with the standards of "fair play" for which Americans have become known as to defy comprehension on the part of friendly suppliers at whose expense such preferences have been granted.

We ask that you and your colleagues work to develop an equitable program. We reiterate that the only lasting way to solve the problems caused by the U.S. sugar program is to change the program with a view of restoring import levels of all quota countries.

We would welcome an opportunity to discuss our concern with you.

ABDUL H. YUSUF, *Charge d'Affaires.*

STATEMENT OF SWEETENER USERS ASSOCIATION

The Sweetener Users Association is pleased to have the opportunity to present its views on proposals to amend the Caribbean Basin Initiative (CBI) legislation. We wish to confine our remarks to sugar imports from CBI beneficiary countries.

The Sweetener Users Association represents industrial consumers of nutritive sweeteners and the trade associations representing such companies. The Association supports legislative or administrative actions that would result in a more market-oriented domestic sweetener price and an adequate and reliable supply of domestic and foreign sweeteners.

We are sympathetic with the concerns over the crippling effects of the U.S. sugar program upon our Caribbean neighbors. However, we cannot support a preferential allocation of U.S. sugar quotas because such an allocation (1) fails to address the fundamental problems of the domestic sugar program, and (2) would be inconsistent with U.S. obligations under the General Agreement of Tariffs and Trade (GATT).

U.S. SUGAR PROGRAM AND QUOTA SYSTEM

As a nation, we are supporting the domestic sugar market at a level (approximately 23 cents per pound for raw sugar) that exceeds full production costs, including returns to land and capital. Moreover, our sugar program has been designed and operated so as to guarantee that even the least efficient producers are encouraged to expand production.

In addition to the basic problem that the domestic sugar program does not meet a reasonable competitive standard, Congress requires the "President to use all available authorities to enable the Secretary of Agriculture to operate the sugar program at no cost to the Government." In Conference Report language, the Conferees explained that by "no cost," it is meant that the import quota on raw and refined sugar be adjusted to such a level that there are no forfeitures of domestic sugar to the Commodity Credit Corporation and, thus, "no cost" to the government.

The combination of an unjustifiably high Federal guarantee price for domestic cane and beet sugar and the so-called "no cost" provision has caused sugar imports to be slashed over the last several years.

U.S. sugar imports declined precipitously in the 1980's. Starting from the 4.4-million metric ton level achieved in 1980 and 1981, they fell to an average of about 2.7 million tons during the life of the 1981 Farm Bill, and were further diminished after the sugar program was extended in 1985. The import quota fell as low as 680,000 tons in 1988 before adverse weather conditions forced an increase. Poor crops in 1989 again temporarily boosted the quota. During the current crop year (fiscal year), about 1.6 million tons of quota sugar will be allowed into the United States. But analysts expect that with a return to normal weather, the quota could be back down near a million tons in 1991/92 when the next Farm Bill will take effect.

The level of imports from the Caribbean nations for the current quota period can be seen in the following chart:

ANNUAL CBI REVENUE FROM CURRENT QUOTAS

Country	19-month Quota [metric tons]	12-month Basis [metric tons]'	Value at $450/mt [millions of dollars]
Barbados	16,957	10,710	4.8
Belize	26,646	16,829	7.6
Costa Rica	49,759	31,427	14.1
Dominican Republic	426,331	269,262	121.2
El Salvador	71,034	44,864	20.2
Guatemala	116,272	73,435	33.0
Haiti	16,070	10,149	4.6
Honduras	47,490	29,994	13.5
Jamaica	26,646	16,829	7.6
St. Kitts & Nevis	16,070	10,149	4.6
Trinidad & Tobago	16,957	10,710	4.8
Total	830,232	524,357	236.0

With a return to normal weather, it can be expected that the sugar import quota for the CBI beneficiary nations will be greatly reduced again within the next several years.

PREFERENTIAL SUGAR QUOTAS FOR THE CARIBBEAN BASIN

Preferential CBI quotas, if based upon the current quota (12-month basis), would establish a guaranteed minimum quota allocation of 524,357 metric tons, raw value, to the CBI countries for any quota year beginning after October 1, 1990. Thus, any future cuts in the overall sugar quota will be borne by non-CBI nations.

The Caribbean Basin Economic Recovery Act of 1989 was passed last year by the House as part of H.R. 3299, the Budget Reconciliation Act. The CBI provision was ultimately deleted from the measure passed in law. The legislation provides compensation authority should these preferential CBI quota allocations be found to be inconsistent with U.S. international obligations under the GATT. This provision appears to be an admission that such discriminatory treatment is a violation of he GATT and, more specifically, of the GATT waiver negotiated by the United States for the CBI program.

The members of this Committee will recall the GATT decision of February 15, 1985, concerning the Caribbean Basin Economic Recovery Act, specifically stated that the United States government would give assurance that it did not envision "any action in pursuance of the [CBI] Act which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries." Further, the GATT, in granting a CBI waiver under the provisions of paragraph 5 of Article XXV of the General Agreement, stated that: "The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocation of sugar quotas."

CBI sugar preferences are troubling for two reasons. First, the compensation provision contained in the House bill seems to imply prior knowledge that they violate GATT law. Second, since CBI sugar preferences do not change the current sugar program, the potential "compensation" exposure to non-CBI nations could be enormous. Moreover, if the sugar program is not corrected, even the need for CBI sugar imports could be eliminated by sometime in the 1990s.

SOLUTION

The solution to dealing with the problem of decreasing sugar imports from CBI beneficiary countries is to change the U.S. sugar program. The 1990 Farm Bill will be drafted, debated, and passed into law this year. It is essential that the sugar program be modified during this legislative process.

Recently, the U.S. sugar import quotas have been condemned by the GATT. The United States has been instructed to change the program to bring it into conformity with our in international obligations. CBI sugar preferences would no doubt bring another GATT challenge and, inevitably, another ruling against the operation of the U.S. sugar program. Therefore, it appears that the best solution is to modify the sugar program immediately.

On March 9, 1989, bipartisan legislation was reintroduced by Senators Bill Bradley and Bill Roth—S. 552, the Sugar Supply Stabilization Act of 1989. This legislation would gradually reduce the current raw sugar loan rate over the next four years, while setting a floor on sugar imports that rises gradually over the same period. Thus, this legislation would assist all traditional foreign sugar suppliers, including CBI beneficiaries and, at the same time, an inevitable challenge of our GATT waiver by non-CBI sugar exporters would be avoided.

CONCLUSION

The domestic sugar program is causing irreparable harm to our trading partners. The Sugar Supply Stabilization Act, or similar legislation, is the best approach for resolving this problem. Legislation to lower the domestic support price and raise the overall import quota would be more consistent with our trade and foreign policies, and would immediately benefit the Caribbean region as well as other foreign suppliers.

Mr. Chairman, thank you for the opportunity to present our views on this important legislation, and we look forward to working with you and your Committee as the Congress rewrites the sugar program during the next few months.

UNITED FOOD & COMMERCIAL WORKERS,
INTERNATIONAL UNION,
Washington, DC, February 27, 1990.

Hon. MAX BAUCUS, *Chairman,*
Subcommittee on International Trade,
Committee on Finance,
U.S. Senate,
Dirksen Senate Office Building,
Washington, DC.

Dear Mr. Chairman: On behalf of the 1.3 million members of the United Food and Commercial Workers International Union, I appreciate the opportunity to comment on the Caribbean Basin Initiative (CBI) extension legislation. Since the Subcommittee is reviewing all CBI proposals, I am directing my comments to those provisions that concern exemptions from duty-free treatment of leather and leather-related products.

It is quite apparent that the shoe and leather goods industries have been severely diminished in the United States. The footwear industry alone currently operates with 82 percent foreign penetration. In 1988, 16 additional non-rubber footwear factories were closed. Unemployment in the leather and leather products industry, which includes non-rubber footwear, averaged 11.6 percent compared with a 5.5 percent national annual average.

In the original CBI legislation, Congress clearly recognized the import sensitivity of leather-related products by establishing an exemption from duty-free treatment. In fact, the House Ways and Means Committee reported on CBI legislation that these industries would not survive if faced with duty-free import competition from the Caribbean Basin.

If the leather flat goods exemption is not maintained, Congress would be ensuring that these goods enter duty and quota free, thereby further threatening the livelihood of American shoe and leather workers. At the same time, Congress would provide CBI countries with an enormous incentive to increase leather-related product exports to the United States. While it is true that the domestic leather industry has decreased over the past several years, it is also true that a sharp increase in imported leather goods will most certainly further weaken the livelihood of leather workers in the United States. There is an abundance of statistical evidence to support this view.

Imports of leather-related products from the Caribbean have grown substantially over the past several years. From 1983 to 1988, the value of footwear parts alone increased by 168 percent to $91 million. Imports of other exempt leather-related products grew by 47.5 percent or by $30 million. Employment in these industries declined during this same period. Between 1982 and 1987, 46,700 jobs were lost in the non-rubber footwear industry, 8,200 in the rubber footwear, 2,400 jobs in the luggage industry, and 11,600 jobs in the personal leather good and handbag industries.

As representatives of organized shoe and leather products workers, we cannot stand by and watch our industries be devastated further by increased foreign penetration. We strongly urge you and members of your subcommittee to maintain the

full exemption for both the footwear and leather products industries. Without maintaining these exemptions, the "free trade" impact of this legislation is not "free." It presents real costs to thousands of American workers. We cannot condone a United States foreign trade policy which is conducted at the expense of our workers.

We appreciate your willingness to include this letter in the formal hearing record.

Sincerely,

WILLIAM H. WYNN, *International President.*

STATEMENT OF THE UNITED STATES TUNA FOUNDATION

The United States Tuna Foundation (USTF) is a non-profit, mutual benefit corporation representing each of the elements of the United States tuna Industry, including tuna vessel owners and operators, tuna vessel crew members, tuna processors, and cannery workers. USTF opposes any proposal to include canned tuna in the duty-free or reduced duty provisions of the Caribbean Basin Economic Recovery Act (CBERA).

When the CBERA was originally passed in 1982, canned tuna was exuded from the duty-free provisions of the legislation. The decision to exclude canned tuna was made after an exhaustive array of evidence was presented which showed that the domestic canned tuna industry would be severely impacted if canned tuna was included. Changes in the industry have made the tuna exclusion even more important to American Samoa and Puerto Rico today than in 1982.

In 1982, almost 59 percent of all tuna caught by U.S. fishermen was landed at ports in the continental United States. The vast majority of these—landings were in California (94%—U.S. Department of Commerce, Fisheries of the United States, 1982). In 1987, only 16 percent of the landings were at ports in the continental United States (Fisheries of the United States, 1987). Today, almost all of the U.S.-caught tuna is landed at ports in American Samoa and Puerto Rico. U.S. production of canned tuna is now centered in these two island areas.

Tuna processing plants in Puerto Rico and American Samoa operate under a variety of U.S. Government regulations administered by the Department of Agriculture, Department of Commerce, Food and Drug Administration, Department of Labor, Environmental Protection Agency and the Occupational Safety and Health Administration. Employees at the plants are supported by U.S. wage and hour laws and similar workplace standards. This full range of regulatory standards is not imposed by or on the CBERA eligible countries. If the United States believes that there is a need to continue to support this multitude of labor, environmental and safety regulations which currently impact U.S. industries, it must offer some protection from unaffected foreign competition.

The U.S. tuna industry is presently protected by a tariff on canned tuna in oil (35 percent ad valorem) and canned tuna in water (6 percent under quota and 12.5 percent over quota). It is of vital importance to the domestic tuna industry that this protection continues.

It is our belief that any amount of duty-free or reduced duty trade will stimulate a shift of tuna production from the United States protectorates to CBERA countries. This will create an adverse effect on tuna related employment in Puerto Rico and American Samoa. The U.S. processing facilities in the island protectorates are—located in areas which traditionally have experienced extremely high levels of unemployment. These areas depend heavily on the tuna industry for their private sector employment.

We support the U.S. policy to assist in upgrading the economies of our neighboring Caribbean Basin countries, but believe that it should not be done at the expense of the U.S. work force. The U.S. territories and commonwealths should be our first concern. If tuna processing is transferred to the Caribbean Basin countries the economies of American Samoa and Puerto Rico will surely decline.

We ask that the United States Senate continue to preserve the tuna industry in American Samoa and Puerto Rico. Changes in the CBERA should not be made to allow duty-free or reduced duty entries of canned tuna from the Caribbean Basin countries.

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